

# THE IAS/IFRS STANDARDS SYSTEM BETWEEN HARMONIZATION AND DEFORMITY

**Hlaciuc Elena**

*University Stefan cel Mare Suceava*

*Faculty of Economics and Public Administration*

**Socoliuc Marian**

*University Stefan cel Mare Suceava*

*Faculty of Economic and Public Administration*

**Mates Dorel**

*West University Of Timisoara*

*Faculty of Economics and Business Administration*

*The development of competition, the globalization and the growth and integration of the capital markets require comparable accounting information based on superior- quality standards, an accounting information to consolidate and not to obstruct the global efficiency of the market .The obligatory adoption of the current IAS/IFRS norms for the creation of the financial statements of the European companies- and especially of the listed ones- are a necessary step for the full integration of the financial markets of EU member state.*

*The 4<sup>th</sup> and 7<sup>th</sup> CE directives contributed to the harmonization of the base accounting information of the stock companies, determining a general improvement of the European accounting norms quality, and this due to the greater comparability of the companies' account, which eased the activity of the trans-border companies.*

*Keywords : IAS/IFRS norm, accounting information, deformity.*

*JEL code: M 41*

But, the accounting directives did not manage to reach the objective of full comparability for the European entities' balance sheets, in exchange obtaining a "formal equivalence" of the optional accounting norms which is more simple.<sup>585</sup>

On one side, the lack of a full harmonization is a consequence of the chosen instrument; the directives are normative acts, in essence principle norms, suspected of a different application in the member states. It is not surprising that the accounting directives admitted, in a series of cases, alternative solutions or optional accounting treatments, or that they haven't challenged all the aspects of the accounting domain concerning the balance sheet. The use of a greater number of general and principle notions did nothing else but amplify the interpretations given by each member state, reducing the convergence degree of the national accounting norms.<sup>586</sup>

On the other hand, historically and politically speaking, choosing a principle instrument, such as the directive one, is certainly appreciated; the presence of a large number of accounting options

---

<sup>585</sup> Fortunato S. – *Armonizzazione contabile fra sovrانيتa e globalizzazione*, Rivista Soc., 1999, pp.329.

<sup>586</sup> Crasberg B.M.- *The role and future plans of the International Accounting Standards Committee*, Quaderni di Finanza Consob, nr. 31/1998, pp.20 – In this book are treated the differences existing between the national accounting techniques, but also between the interpretation of the comune communitarian normatives; Adamo S.- *Problemi di armonizzazioni dell'informazione contabile*, Milano, 2001, pp. 231; in both papers, the accent is put on the necessity for a common accounting language, derived from the complexity of the markets globalization process

eased the approval of the directives and their implementation in various countries of Europe, allowing to surpass the resistance of the same member states to the accounting harmonization policy preferred by the communitarian institutions. It is enough to think about the long periods of time that were needed to implement the accounting directives (Italy, for example, implemented the 4<sup>th</sup> directive after 13 years from the deadline) in order to realize the difficulties brought by the tendency to impose the member states to give up- even partially- the own accounting traditions, consolidated and to converge to an unitary model.<sup>587</sup> The slow process of fully applying the principles established within the directive was the cause of their quick ageing; while the member states were struggling to comply their own national legislation and accounting practice to the communitarian requests, the social and economical context changed, making the directives to become completely inadequate to reach the objective to ease the intra-communitarian exchanges. The most radical changes are the ones concerning the financial markets. During the 90s, the international real estate markets, so as the European ones went through a deep changes period, mostly due to the increased use of the new IT technologies and of the economy's globalization, which made possible reaching high mobility levels of the capital, leading to a progressive closeness of the financial markets.<sup>588</sup>

The evolution of the international financial scenario lead to the increase of the European society number which intent to enter an extra- national context (the so-called global players) and which are obliged to feed with balance sheet information that is more comparable and complete, facing the ones supplied by the balance sheets made under the communitarian directives, applied in a pretty different manner in each member state, this problem becomes more pragmatic and dramatic in the case of the investigations on the extra- European markets, as a consequence of the obligation stipulated in the majority of the rulebooks to make the reconciliation of the accounting prospects with the local accounting norms.<sup>589</sup> Also within the EU, adopting applicative disciplines and national procedures that are very detailed and differenced denied the possibility to mutually recognize the accounting prospects<sup>590</sup> which the Union aims to reach, with unavoidable

---

<sup>587</sup> the adherence of the national accounting traditions concerning the making of the financial statements was highlighted in numerous studies, which during the 90s have tried to actually measure the convergency degree of the european norms and accounting practices, by which are also included: FEE- *Comapartive Study on Conceptual Accounting Frameworks in Europe*, may 1997; FEE- *The role, position and liability of the statutory auditor in the EU*, januarie 1996; Lainel J.A. and Callo S.- *The effect of Accounting Diversity on Internatonal Financial Analysis*, vol 35, nr.1, 2005, pg.65; Onesti D.- *Fattori ambientali e comportamenti contabili*; Torino, 1995, pp. 246; Rusconi G.- *Il bilancio in Europa*, Milano, 1999

<sup>588</sup> Venuti M. – *Il bilancio di esercizio fino agli IAS/IFRS*, Milano, 2006, pp.348 In which is treated an ample presentation of the birth and evolution of the “new course” of the European accounting strategy starting with the 90s; it is also foreseen, for the European area, which the integration process for the financial markets was accelerated and consolidated also by the introduction of the euro. The necessity for accounting harmonization is not a theme debated only for the EU context, but on a world level. For a recognition of the benefits that should result from a global harmonization of the financial statements of the listed companies, look at: Adamo S. – *Problemi di armonizzazioni dell'informazione contabile*, Milano, 2001, pp.45

<sup>589</sup> Of a significant importance for the European companies was the reconciliation obligation of the balance sheets imposed by the Security Exchange Commission (SEC) to all the companies, which intended to be listed in the US. Until the end of the year 2007, the SEC imposed that the balance sheets of the companies listed in the US must be elaborated according to the USGAAP. In order to understand better cost and disharmonies organization regarding the necessity for accounting harmonization of the companies, the so-called multi-listing, the studies of Zvrolo A. - *La gobalizzazione dei mercati e l'armonizzazione delle regoli contabile*, Rivista dei Dottori Commercialisti, 1997, pp.824 are recommended.

<sup>590</sup> Both side recognition of the accounting prospects was prefigured by the Council Directive of December 21<sup>st</sup>, 1989, no. 89/666/CEE (the so-called 9<sup>th</sup> Directive) concerning publicity of the branches listed in a member state by certain companies under the legislation of another state.

consequences for the European emitters to elaborate and present more accounting documents fascicles, in order to be listed in the member states, others than the ones coming from.

The evolution of the main European directives in the accounting harmonization process

In the situation where the communitarian institution decided on abandoning the gradual harmonization policy, which began at the end of the 60s in favor to a decisive impulse to a real “standardization” of the accounting rules<sup>591</sup>, applied by the “global player”, by implementing and applying an unique set of accounting standards, initiating this process is announced in November 1995, by publishing the communication called: “The accounting harmonization: a new accounting strategy compared to the international harmonization process”<sup>592</sup>, through which the EC solicits the attention to be focused on the necessity, on one hand, to eliminate the existing differences and on the requests of the international capital markets (therefore improving the value of the information and the comparability of the balance sheet data), and on the other hand to insure Europe with the possibility to reasonable contribute to the international developments concerning accounting harmonization.

The accounting harmonization method used in the European accounting directives of the 70s and 80s, and also the new strategy of the Communitarian Institutions, wish to assure the fact that the European companies can operate both on the European markets and on the international ones, based on an unique set of accounting standards. The new approach imposed that the EC individualized or elaborated accounting rules able to compose the new accounting language of the European companies.

The hypothesis of the “autonomous” elaboration of a communitarian set of accounting standards was unreal and twice more inefficient. On one hand, creating a complete and coherent set of accounting standards could demand for a very long period of time and obvious investigations, in order to solicit the approval or the advice of the highly- professionally trained accounting personnel; on the other hand, this could turn out to be, in essence, useful, because it would have done nothing else that introduce an additional diversity and disharmony element for the financial markets.<sup>593</sup>

The most rational solutions were to identify which were the most spread standards, and the most adequate ones to reach the objectives of an unique market. The selection process of the Committee was no doubt eased by the existence of at least 2 accounting standards, capable to recognize and spread as ample as possible, within the European companies, the standards elaborated by the IASC and the USGAAP American norms.<sup>594</sup>

---

<sup>591</sup> It is necessary to recall that in the communitarian area, the harmonization is the process by which are eliminated the differences existing between the national legislations deriving from norms – Caruso B.- *Armonizzazione dei diritti e delle legislazioni della Comunità Europea*, in Enc. Giur, vol. II, Roma, 1993

<sup>592</sup> Com. CE (1995), 508 of november 14<sup>th</sup>, 1995.

<sup>593</sup> As stipulated in Communicate 508/1995, paragraph 4.6 shows that on the Committee’s decision, a significant influence was also of the economical-financial community’s opinion – Fradeiani A. - *La globalizzazione della comunicazione economico-finanziaria*, Milano, 2005, pp.24

In communicate COM (2000) no. 359 of June 13<sup>th</sup>, 2000, the Committee reported the results of certain studies, according to which in the year 1998, almost 210 companies of the EU made and published own balance sheets according to the IAS standards, while 235 made balance sheets based on the USGAAP norms. In an initial stage, the Committee tended to make an agreement with the USA (Communicate COM/508/95, paragraph 4.3). On the international level, there were already recorded tendencies for accounting harmonization on behalf of other international organizations, such as the UN, OCSE and WTO (indicated in the same COM 508.95, paragraph 2.9). None of these tendencies produced “results which to have a certain probability of being recognized on the international capital markets in an adequate period of time for solving this urgent problem” (paragraph 4.4). Concerning the proposals made by the OSCE and UN in terms of harmonization, during the 70s – simultaneously to the creation of the IAS – look at Burggraaff J.A. – *L’IASC una risposta all’esigenza de armonizzazione contabile a livello mondiale*, Rivista dei Dottori Commercialisti, 1982, nr-31-32.

Both the IAS and the USGAAP, even if very different concerning the accounting solutions concerning various hypotheses, were based on the same option, aiming to make the annual balance sheet, which is the prevalence of information functioning in confronting the market investors.

Both the IAS and the USGAAP are orientated towards investor protection, more than any other stakeholder category. Therefore, the choice was made by the Communication no. 508/95/CEE, where the Committee individualizes for the standards made by the IASC, the reference point for the convergence process taken into account by the European accounting systems.

Choosing the IAS was motivated not only because of the high-quality level of these norms, but also because of the difficulties that would have derived from choosing the American standards for the European situation. The IAS are actually based on a vision of the balance sheets, with an international and often- contextualized tendency, while the USGAAP mostly reflect the characteristics of the American market. Applying the USGAAP imposes, as a consequence of these principles, numerous characteristic detailing, but also the existence of a monitoring authority, which like the SEC must be trusted with regulation and penalty competences.<sup>595</sup>

For the political plan, certain difficulties may have been developed because of the new accounting standards adoption, for whose elaboration the EU, and all its members had no influence. Operationally, for the 1995 Communicate, the Committee manifested its own “complicity” intention to the standards elaborated by the IASC<sup>596</sup> and declares to start a confrontation with this organization in order to check the compatibility of the IAS with the communitarian right (in terms of European accounting legislation). The hypothesis of modifying the communitarian accounting directives (especially of the 4<sup>th</sup> and 7<sup>th</sup>) was presented as an optional one, and most likely an improbable one; the committee made no secret out of the state’s repugnance to eliminate the options present in the directives.<sup>597</sup>

Further to the Communicate of 1995 publishing, the EC initiated a deep examination of the IAS standards, in order to check effective conformation with the communitarian legislation in terms of accounting.<sup>598</sup> . A consequence of this study was the making, in the year 1998, of an accounting directive. Meanwhile, the EC developed (as stipulated in the 1995 Communicate) a promotion activity of the IAS norms within the member states and the European companies, these activity of “moral fusion” being due to the recognition premises of the IAS standards on behalf of the national legislation of certain member states.

As a consequence of the made analysis and the continuous evolution of the markets, the Committee decided on initiating an own and real normalization (standardization) of the listed companies’ balance sheets, which were more sensible to an accounting harmonization activity. By a series of publications in the years 1998 and 1999<sup>599</sup>, the EC highlights the importance of the accounting harmonization and its availability to follow the strategy stipulated in the 1995 Communicate, setting its own “action plan” for the financial services sector.

---

<sup>595</sup> According to the Communicate of June 13<sup>th</sup>, 2000 paragraph 1.5.

<sup>596</sup> In the English version, the European Committee clearly expresses its intention to support the IAS with the (political) support of the Union.

<sup>597</sup> Paragraphs 4.5 and 5.3 of the 508/95 Communicate highlight the fact that the accounting harmonization process may have seen prior the consolidated balance sheets.

<sup>598</sup> The study was trusted to a certain task force of the so-called Contact Committee, created by article 52 of the 4<sup>th</sup> directive, especially to ease the harmonized and corresponding application of the *genius comitology committee*. The EC uses the activity performed by the accounting forum, the consulting organization, made in the year 1990, with the purpose to study thoroughly those more controversies in accounting matters, by providing with certain documents adequate to ease the debates and if possible to try and look for a reconciliation on the adequate technical solutions.

<sup>599</sup> It is about COM (1998) 625 of October 28<sup>th</sup>, 1998 called *Financial services – elaborating a framework*, and also SEC (1998) 552 of March 31<sup>st</sup>, 1998 *The equity - a solution to create work places in the EU*.

The EC strategy obtained an official approval of the European Council with the meeting from Lisbon in March 2008.<sup>600</sup> In order to approve the strategy proposed by the Commission, the EC highlighted the importance of the financial services sector as an engine for the European development, repeating that the fundamental hypotheses for creating an unique financial market in Europe are: transparency, comparability and the credibility of the balance sheets published by the European companies. The Council indicated the year 2005 as being the deadline to complete the full integration of the financial services, justifying this short period by the importance assumed by the informational technologies, due to which the possible investors had the possibility to access, elaborate and compare in real time the financial data of various companies. Based on this, in the year 2000, the Commission officially initiated the accounting convergence process, stipulated in the 1995 Communicate and reaffirmed in the “Action Plan” of 1998, by the 13<sup>th</sup> of June Communicate<sup>601</sup> - the Commission confirming its own availability to get in time to a full harmonization of the annual accounts of the European listed companies, using for this purpose the accounting standards elaborated by the IASC (in present IASB).

## Conclusions

The official adoption of the IAS, on behalf of the EC, was accompanied by an official recognition on behalf of other influent international organization. In the same year, both the Representing Organization of the Financial Markets Control Authorities of the world main countries, the IOSCO (International Organization of Securities Commission) and the International Organization of Bank Supervision Organization- the Basil Committee formally approved the use of the IAS standards in making the balance sheets of the listed companies and banks.

The IOSCO, especially, by the resolution of January 16, 2000 recommended to the main members (that is, to the supervision organization for the Stock Markets of the main countries of the world) to allow the international emittents the use of the IAS standards in making the financial statements. The Basil Committee published, in April 2000, a report<sup>602</sup> in which it explains their support for the international standards of the IASC, having a significant impact over the credit institutions. The decision of the EC to fit within a global tendency to appreciate more and more the IAS standards, involved eventually the organization responsible for the elaboration of the USGAAP, the FASB; in September 2002, the IASB and the FASB signed a treaty by which they agreed to promote the convergence of the mentioned accounting standards.<sup>603</sup>

Of an indubitable relevance concerning this fact is the result obtained at the end of the year 2007, by the cooperation of the IASC and FASB: on the 15<sup>th</sup> of November 2007, the SEC finally decided on giving up the reconciliation obligation between the annual accounts made by the

---

<sup>600</sup> The Extraordinary European Council of March 23<sup>rd</sup> - 24<sup>th</sup> 2000 is known for the fact that it approved the so-called “Lisbon Strategy”, aimed to re-launch the process of completing the unique market, establishing the objective and will to make out of the EU, by the year 2010, “an economy based on the most competitive knowledge in the world”. After the Lisbon Strategy, in the year 2005 the Committee made a complex *re-launch* program of these; also look at COM (2005) 24.

<sup>601</sup> Communicate COM (2000) 359.

<sup>602</sup> [www.bis.org/publ/bcbs70.pdf?noframes=1](http://www.bis.org/publ/bcbs70.pdf?noframes=1).

<sup>603</sup> IASB – FASB -*The Norwalk Agreement* – Memorandum of Understanding, Connecticut, September 18<sup>th</sup>, 2002. The decision to make an agreement with the IASC was mostly determined by tensions and critics suffered by the FASB with the boom of the scandals concerning the *dot com* speculations and the great financial scandals concerning important US companies (Enron, WorldCom etc). By the next „Memorandum of Understanding” of February 27<sup>th</sup>, 2006 (entitled *A Roadmap for Convergence between IFRS and USGAAP 2006-2008*), the IASB and FASB committed to develop together a common accounting standard set, which should represent the necessity to modify, in a significant manner, both the IAS/IFRS and the USGAAP, the subject being the same accounting behavior .



European companies according to the IAS/ IFRS with the USGAAP<sup>604</sup> ones. On this occasion, the SEC highlighted that this must not be understood as a finalization of the cooperation between the IASB and FASB, but as an important step to creating an unique accounting standard set, of high quality, globally applied; the convergence process between the IAS/ IFRS and the USGAAP continues.

## References

1. Alford A., Jones J., Leftwich R., Zmijewski M., 1993, The relative informativeness of accounting disclosures in different countries, *Journal of Accounting Research*, 31, 183-224.
2. Allegrini M., 2003, L'informativa di periodo nella comunicazione economica – *finanziaria*, Milano, Giuffrè,.
3. Azzali S. et al., 2002, *Il bilancio consolidato secondo i principi contabili internazionali*, Milano, Il Sole 24 Ore,.
4. Baroni-Adesi G., 2001, *Financial disclosure and value creation: the role of financial communication, in studies in communication*, Sciences, Lugano, Università della Svizzera Italiana,.
5. Barth M., 1994, *Fair value accounting: evidence from investment securities and market valuation*, *The Accounting Review*, 69 (1), 1-25.
6. Bostan I., Grosu V., 2009, *Limits on legislative harmonization financial accounting*, The 33rd the American Romanian Academy of Arts and Sciences (ARA) Congress "Modernism and Progress in Arts and Sciences", Ecole of Polytechnique de Montreal, Polytechnic International Press Montreal, Quebec (Canada).
7. Brondoni, S.M. 2002, *La comunicazione integrata in eccesso di offerta*, Il sole 24 ore, 1 ottobre,.
8. Caramanolis-Çötelli B., Gardiol L., Gibson-Asner S. and Tuchschnid N., 1999, *Are investors sensitive to the quality and the disclosure of financial statements?*, *European Finance Review*, 3, 131-159.
9. Carroll A., B. 1993, *Business and society: ethics and stakeholders management*, South Western, Cincinnati,.
10. Collins D., Kothari S., 1989, *An analysis of intertemporal and cross-sectional determinants of earnings response coefficients*, *Journal of Accounting and Economics*, 11 (2-3), 143-182.
11. Flaxio Gneccchi, 2006, *La comunicazione integrata di corporate governance*, Symphonia, Emerging, ISSUES IN MANAGEMENT.
12. Grosu V., Bostan I., 2009, *Analysis of Accounting Convergence Between EU and USA (IAS/ IFRS vs. USGAAP)*, The 33rd the American Romanian Academy of Arts and Sciences (ARA) Congress "Modernism and Progress in Arts and Sciences", Ecole of Polytechnique de Montreal, Polytechnic International Press Montreal, Quebec (Canada).
13. Lev B., Zarowin P., 1999, *The boundaries of financial reporting and how to extend them*, *Journal of Accounting Research*, 37, 353-386.
14. Mates D., Grosu V. et al., 2008, *Risk insurance evaluation according to IFRS4. The solvency of the insurance company, methods of calculation of the solvency rate available in the accountancy*, *Revista – Contabilitate și Informatică de Gestiune*, Nr. 23, Bucuresti.
15. Rippington F., Taggler R. 1995, *The information content of firm financial disclosure*, *Journal of Business Finance and Accounting*, 22(3), 345-362.

---

<sup>604</sup> The decision of the SEC follows similar authority decisions of countries such as Australia, Hong Kong, South Africa. Canada, India and Korea announced that using the IAS/IFRS standards will be accepted starting with the year 2011. In the same year, convergence should be reached between the IAS/IFRS and the Japanese accounting standards. In Brazil, the listed companies should use the IAS/IFRS from 2010. Look at the information provided by the journal of the IASB and the IASC Foundation, *Insight*, Q4, 2007.

16. Stittle J., 2004, *The reformation of European corporate reporting*, European Business Review, vol. 16, n.2, 139-151.
17. Tarquino L., 2003, *Financial derivatives – Fair value e convergenza contabile internazionale*, Giappichelli, Torino.