The way towards IFRS

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1. Executive summary

Today almost 120 countries around the world have committed to use International Financial Reporting Standards (IFRS) at different levels, including the most significant countries in Europe. There is significant international knowledge, experience and learning available from these countries, and the merits and difficulties of IFRS adoption can be described in detail.

The Hungarian accounting profession in conjunction with the Ministry of National Economy have compiled a survey of 20 relevant countries to understand and utilise this extensive experience as Hungary formally considers the adoption of IFRS. The results of this survey are presented in this publication.

Background and adoption of IFRS in the region

The International Accounting Standards Committee (IASC) issued the first International Accounting Standard (IAS) in 1973 and Cyprus was the first country, from the countries in the scope of this survey, to adopt International Accounting Standards in 1981. Subsequently, in 2004 and 2005 a further nine countries including Hungary adopted IFRS for consolidated financial statements of listed entities.

Among the countries included in the scope of the survey, 13 countries adopted IFRS as endorsed by the European Union (EU); four adopted IFRS as issued by the IASB (Albania, Canada, Russia and Ukraine); and Macedonia, Montenegro and Serbia adopted IFRS as required for the local country.

Mandatory application of IFRS is required for consolidated financial statements of listed entities in all surveyed countries, and mainly for separate financial statements. In most countries, if the application of IFRS for separate financial statements is mandatory or permitted, it is not compulsory to also prepare financial statements based on local GAAP (e.g. IFRS separate financial statements can be used as a basis for taxation).

Eleven countries do not permit any departure from IFRS and the standards are to be applied as issued by the IASB or adopted by the EU. In contrast, Malta, Macedonia, Russia, Slovenia and Ukraine set out specific requirements relating to the presentation or functional currency to be applied.

Success factors from the implementation of IFRS

The most important factors identified for a successful implementation of IFRS in the countries involved in the survey were:

- accountants' and auditors' appropriate knowledge of IFRS;
- engagement and full support of the national or country accounting profession;
- an appropriate timeframe for implementation of the new standards;
- timely development of supporting IT systems.

The harmonization of tax and other regulatory requirements with IFRS had a lower importance than expected.

Most respondents indicated that the transition to IFRS was supported by the cooperation of country regulatory bodies, the accounting and auditing professions, and by high quality training organised by these bodies during the implementation process.

Factors highlighted by survey respondents of areas that could have been done differently include publication of technical literature in local language and ensuring an appropriate transition period for preparers of financial statements. This latter observation related to those countries where the transitional period did not exceed 12 months.

Advantages and disadvantages

Survey respondents indicated that the most important advantages arising from the implementation of IFRS are the comparability and transparency of financial statements and the consistency of information disclosed. Entities applying IFRS are better prepared to access the capital markets because IFRS-based financial statements are an essential expectation of foreign investors. IFRS implementation saves costs and administrative burdens for entities that form part of an international group because often these entities can avoid preparing two sets of financial statements. A further advantage is that IFRS is principle based, and not a rule based set of accounting standards, better reflects complex transactions and is updated regularly in response to market changes.

The most common disadvantage is how organisations respond to difficulties arising from the lack of knowledge and experience of preparers and users of financial statements including regulators, accountants, advisors and auditors. It was also noted that the cost of IFRS implementation is relatively high due to IT system changes, significant use of internal resources, external training requirements and associated administrative costs. For companies under a certain size the benefits of implementation do not offset the costs of implementing and maintaining IFRS.

IFRS and taxation

The survey considered both the practical responses made to tax legislation arising from the one-time challenge of transition to IFRS (first time adoption) as well as the way continuing differences between IFRS and local GAAP reporting are treated for taxation purposes.

Based on the survey results, there were no special tax base modifying items in connection with the one-time GAAP adjustments recorded for first time adoption of IFRS for the majority of countries. However, in certain countries (e.g. Slovenia), the differences recorded directly in equity (opening retained earnings) modified the bases of income tax in the year of transition while in certain other countries (e.g. United Kingdom, Slovakia) the tax impact of the various differences recorded on transition to IFRS were deferred in equity and released to profit and loss on a systematic basis.

With regard to the tax treatment of ongoing differences between pre-tax income in accordance with local GAAP and IFRS the majority of surveyed countries reported that pre-tax income according to the actual financial reporting framework is the starting point for the income tax computation without any GAAP specific adjustments. Slovakia and Romania reported that the local tax legislation includes specific provisions to address IFRS and local GAAP differences. Only the Czech Republic – where the adoption of IFRS is voluntary for separate financial reporting – reported that income tax is required to be calculated entirely based on local GAAP regardless of the financial reporting framework applied. IFRS users in the other countries do not have to prepare local GAAP financial reporting for taxation purposes in addition to the IFRS financial statements.

IFRS financial statements and related regulations

Generally, countries participating in the survey indicated that for the purposes of assessing compliance with capital requirements set by individual country regulators, and for establishing the basis for dividend distributions, companies should report under the financial reporting framework that applies for statutory financial reporting purposes.

For banks in certain countries, capital adequacy ratios are calculated based on specific formulas provided by local regulators rather than financial reporting information (e.g. Bulgaria, Cyprus, Malta) or calculated by applying a mixed method where financial statement data is adjusted according to requirements set by the local regulator (e.g. Canada Romania, Ukraine and the United Kingdom).

IFRS training and qualifications

Survey respondents indicated that one of the key success factors of IFRS implementation is the appropriate knowledge of IFRS by accountants, auditors and users of financial information. In addition, significant difficulties arose where companies and users (including tax inspectors, accountants, consultants and auditors) had insufficient knowledge of the standards and limited practical experience.

Preparation for transition to IFRS through training

In the majority of countries surveyed, IFRS training was held as part of the implementation process.

Professional accountants and auditors were prepared methodologically for the transition. Training was often supervised by the authority responsible for the transition to IFRS, by local accounting / auditing Chambers, and with the assistance of the Big4 firms.

In many countries when planning for the transition to IFRS of financial institutions, the central bank played a major role – especially in the development of methodologies and in relation to education.

Accounting qualifications

In all surveyed countries, the relevant accounting and auditing qualifications include IFRS competencies –no separate IFRS accounting and auditing qualifications are required. Several countries accept international accounting qualifications as relevant local qualifications including the ACA, ACCA and ACCA DipIFR qualifications.

Maintaining IFRS competencies

Continuous IFRS training of accountants and auditors is an intention and requirement in all countries and accountants and auditors renew their IFRS knowledge during annual mandatory training.

Attachment – method of the survey

The Hungarian office of each of the Big 4 International Accounting firms (Big 4) compiled a common questionnaire to obtain feedback on the adoption and implementation of IFRS. This questionnaire was sent to member firms/ offices in 20 countries mainly in Europe (Czech Republic, Poland, etc.), where there is a possibility of using IFRS, or its use is mandatory for certain groups of companies. 16 countries were selected mostly from the East- and Central-European region because of economic, social and other similarities. The survey was extended to other relevant countries outside of Europe who had recently adopted IFRS.

The questionnaire included 23 questions relating to the following six areas:

- Adoption of IFRS in the region;
- Success factors in the implementation of IFRS;
- Advantages and disadvantages;
- IFRS and taxation;
- IFRS financial statements and related regulations;
- IFRS trainings and qualifications.

80 questionnaires were distributed and 65 responses were received. These responses were aggregated, reviewed and the results are presented in this survey.

Lessons for Hungary

The adoption of IFRS could assist Hungary become more attractive and competitive in the global market as IFRS can assist in opening the market to foreign investors and capital markets. It may also lead to a more comparable and transparent accounting and reporting environment and improve the overall competitiveness and image of the country by joining an internationally accepted accounting framework. Mandatory adoption of IFRS would improve transparency and comparability of separate and consolidated financial statements of listed entities and the banking sector. Voluntary adoption of IFRS would be beneficial in particular for Hungarian subsidiaries of groups reporting under IFRS and for entities seeking access to international capital and money markets.

The most critical success factor for an effective implementation will be the availability of properly trained and experienced professionals. In order to achieve this, the preparation of high quality training materials, provision of excellent trainings and translation of the full IFRS literature into local language will be key.

Although there is a general view in Hungary that the treatment of GAAP differences affecting taxation is problematic, the results of the survey do not support this preconception. However, due to significant differences between Hungarian GAAP and IFRS incorporation of special "bridging" provisions into the income tax law, as well as other regulatory requirements (e.g. capital adequacy provisions) addressing the most typical and potentially significant GAAP differences will be necessary.

2. Survey methodology

In order to utilize the relevant knowledge and experience of countries currently using IFRS for different types of financial reporting, we performed an international survey. In this chapter we describe the survey approach, methodology and the sample of countries participating in the survey.

2.1 The survey method

Data was collected through questionnaires using both qualitative (open-ended questions) and quantitative (forced-choice questions) measures. The questionnaire included 23 questions in total allocated to the following four major topics:

1. General questions about the application of IFRS in the specific countries. (Questions 1/a – 3)
2. Specific questions about the transition to IFRS – e.g. transitional period, critical success factors, advantages / disadvantages of the transition. (Questions 4 – 14/b)
3. Specific questions about the relationship of IFRS and taxation, relationship of IFRS and the company's distribution policy and additional compliance related questions. (Questions 15 – 22)
4. Specific questions about IFRS qualifications. (Questions 23/a – f)

(An example of the questionnaire is included in Appendix A of this document.)

2.2 The sample

The survey population was intended to cover all countries in Central and Eastern Europe (CEE) that apply IFRS and have experience on the transition to IFRS. Outside CEE, four additional countries participated in the survey as we believe their views and experience will contribute to the success of an effective IFRS implementation in Hungary. In total, 20 countries were represented in the research.

The Big 4 accounting firms (Deloitte, E&Y, KPMG, PwC) were responsible for the distribution of surveys to the relevant firm office in each country included in the survey.

The following table lists participating countries and the number of responses received. In total, 65 responses were received from 80 questionnaires distributed, an 81% response rate.

Participating countries and responses received

CEE Region					
1.	Albania	4	9.	Montenegro	2
2.	Bulgaria	4	10.	Poland	3
3.	Croatia	4	11.	Romania	4
4.	Czech Republic	3	12.	Russia	2
5.	Estonia	4	13.	Serbia	3
6.	Latvia	3	14.	Slovakia	4
7.	Lithuania	4	15.	Slovenia	4
8.	Macedonia	4	16.	Ukraine	3
Outside the CEE Region					
17.	Canada	2	19.	UK	3
18.	Cyprus	3	20.	Malta	2
In total					**65**

Illustration 2.1. – The countries involved into the survey and the number of responses received

The following chart shows the majority of responses were received from the CEE (55 responses from the 65 in total).

Responses from the CEE Region and outside CEE

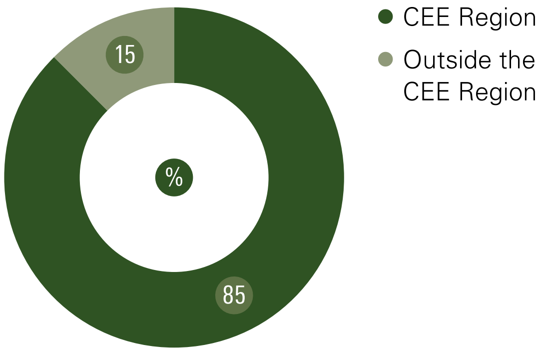


Chart 2.2. – Responses from the regions

2.3 Data gathering and quality assurance

The survey was conducted in July and August 2013. Colleagues were initially contacted via email followed by telephone interviews where additional explanations or information was necessary. In the case of inconsistencies in responses to objective questions, the contact person was directly interviewed to clarify the response. Inconsistencies between data gathered by the different firms were also reconciled with the relevant countries to ensure the quality of the input data.

3. Adoption of IFRS in the region

The information within this section summarises the key findings related to the date and method of IFRS adoption and the relationship between IFRS standards and local legislation for the countries participating in this survey.

In preparing the survey we assumed that in addition to mandatory application of IFRS, most companies from the surveyed countries are permitted to apply IFRS in the preparation of their financial statements without significant divergence from the standards set by the Board and the new standards and interpretations are applied after a formal endorsement process.

3.1 Adoption of IFRS for separate and consolidated financial statements

The majority of countries in the region, being EU member states, apply EU IFRS, three countries have adopted IFRS as issued by IASB, and in four countries, local accounting legislation has converged to be in compliance with IFRS. For the purpose of this study, IFRS includes those as issued by the IASB or as adopted by the EU.

Listed entities are required in all jurisdictions to prepare their consolidated financial statements in accordance with IFRS. In Slovakia IFRS are required to be applied by all public interest entities including banks and insurance companies and entities above certain thresholds of total assets, net turnover and average number of employees.

Mandatory application of IFRS is also required for listed entities' separate financial statements in 14 countries. 17 countries mandate the application of IFRS for the consolidated financial statements of banks and insurance companies, whereas in nine countries, separate financial statements of financial institutions must also be prepared in line with IFRS. Mandatory IFRS application is effective for SMEs in six countries.

For most of the companies in the surveyed countries, IFRS application is required or permitted for separate financial statements as well, except for Croatia, where SME's cannot apply IFRS neither for separate nor for consolidated financial statements; Latvia, where SME's are not permitted to prepare their separate financial statements based on IFRS; and for Hungary and Russia, where IFRS cannot be applied in the preparation of separate financial statements.

For a comprehensive understanding of the application of IFRS in the region we examined the mandatory application of local GAAP in addition to mandatory or voluntary IFRS application.

In Romania, listed entities and financial institutions are required to prepare their separate and consolidated financial statements based on IFRS. Except for banks and commercial companies listed on a regulated market, Romanian companies are required to prepare additional financial statements based on local GAAP as well. For SME's voluntary IFRS application is permitted, however in addition to IFRS consolidated and/or separate financial statements, SME's are required to prepare financial statements using local GAAP.

No official statistics are available in the countries covered by the survey for the number of companies reporting under IFRS.

	Listed entities		Financial institutions		SMEs	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
Albania			1, 2, 3	1, 2, 3		
Bulgaria*			1, 2, 3	1, 2, 3		
Cyprus*			1, 2, 3	1, 2, 3		
Czech Republic*						
United Kingdom*						
Estonia*			1, 2, 3			
Croatia*			1, 2, 3			
Canada			1, 2, 3			
Poland*			1			
Latvia*			1, 2, 3	1, 2, 3		
Lithuania*			1, 2, 3	1, 2, 3		
Macedonia			1, 2	1, 2	IFRS for SME	
Malta*			1, 2, 3	1, 2, 3		
Montenegro			1, 2, 3	1, 2, 3		
Russia			1, 2			
Romania*			1, 2	1, 2		
Serbia			1, 2, 3	1, 2, 3	IFRS for SME	
Slovakia*	PIE		1, 2			
Slovenia*			1, 2			
Ukraine			1, 2			
Hungary*						

*EU member states

- EU IFRS
- IASB IFRS
- IFRS compliant local legislation

- Mandatory application
- Voluntary application

1 – Banks
2 – Insurance companies
3 – Funds

Illustration 3.1. Adoption of IFRS in the region

Current situation in Hungary
As an EU member state, Hungary has adopted EU IFRS and Hungarian listed entities are obliged to prepare their consolidated financial statements in accordance with IFRS while for financial institutions and SME's voluntary application of IFRS is permitted for consolidated financial statements.

Given the limited number of "white spots" on the map above (i.e. countries where IFRS application is neither required nor permitted for certain type of entities or financial statements) the Hungarian government's intention to require or permit application of IFRS for separate financial statements is a welcome development.

Adoption period

The illustration below shows the timeline for adopting IFRS by the countries covered in the survey.

1981	Cyprus – IFRS as adopted by IASB
1993	Croatia
1997	Malta
2001	Latvia (banks and financial institutions)
2004	Estonia Lithuania (mandatory for financial institutions and listed companies) Russia (IFRS financial statements for banks) Serbia
2005	Bulgaria Cyprus (IFRS as adopted by EU) Czech Republic, United Kingdom Hungary (listed entities' consolidated financial statements) Montenegro, Poland Slovakia (consolidated financial statements)
2006	Latvia (insurance companies and listed entities) Slovenia (banks) Slovakia (separate financial statements)
2007	Lithuania (optional for others) Slovenia (listed and insurance companies) United Kingdom (companies on Alternative Investment Market)
2008	Albania
2010	Macedonia
2011	Canada, Ukraine (for banks)
2012	Romania, Russia (others) Ukraine (others)

Illustration 3.2. The timeline of IFRS adoption

3.2 Further planned adoption of IFRS

As IFRS are acknowledged and adopted for use in more countries, other country governments may realise that increasing the range of companies applying IFRS is beneficial. The process of IFRS adoption is advanced in many countries, however, most have not yet expressed plans for further convergence in the near future – only a few are taking steps as detailed below.

Adoption of IFRS for investment funds in Canada is mandatory as of 1 January 2014 and for all companies operating on regulated markets from 1 January 2015. In Lithuania, local GAAP will fully comply with IFRS as of 1 January 2014 and Macedonia has an on-going project for full harmonization. Romania has planned full conversion to IFRS for companies operating in the capital markets and insurance companies over the next two to three years.

Russia is extending the range of companies preparing IFRS consolidated financial statements from 2014 and is planning a project for the harmonization of local regulations with IFRS.

Current situation in Hungary

Hungary is in the process of adopting EU IFRS for separate financial statements which is intended to replace reporting under local GAAP. Based on current plans, EU IFRS would be mandatory for separate financial statements of financial institutions and listed entities, and would be permitted for separate financial statements of entities controlled by a parent reporting under IFRS and entities above a certain size.

3.3 Divergence from IFRS

In most of the countries surveyed Albania, Bulgaria, Canada, Czech Republic, Croatia, Estonia, Latvia, Lithuania, Poland, Slovakia and the UK there are no significant divergences from IFRS.

The main divergence required from IFRS in other countries is the compulsory use of local currency as the functional currency. In Macedonia the law prescribes the use of local currency in all trade books, specific charts of account for industry, banks and insurance companies. Although there are recognition and measurement principles in IFRS, specific local laws prescribe different treatments for certain transactions or classifications. There are discrepancies in taxation-related regulations that are further discussed in Chapter 6 of this publication.

Maltese company law permits more entities to prepare consolidated financial statements than that allowed by IFRS, but restricts their choice of presentation currency which has to be the currency denomination of the company's share capital.

Romania does not permit any deviation from IFRS, but there are some non-compliance topics still not finalised (e.g. treatment of hyperinflationary adjustment to share capital). Russia, Slovenia and Ukraine only permit the usage of local currencies as functional and presentation currency, although Ukraine also allows prescribed reporting formats which may not always comply with IFRS.

3.4 Timeliness of adoption of IFRS

If an IFRS is amended or a new standard or interpretation is issued by the IASB, countries have a formal endorsement process in which regulations are officially translated into local languages, published in the country's official language and adopted by the local regulations. The responsible institutions are committed to minimise the gap between IFRS and the endorsed standards.

In Canada the Accounting Standards Board is required to vote to incorporate new or amended standards into the Canadian Institute of Chartered Accountants Handbook before they can be adopted into the legislation.

In Macedonia, Company Law prescribes that the Ministry of Finance shall perform regular translations and updates that will be published in the Official Gazette. However, the updates do not seem to occur regularly (the last one being in 2010), which results in the financial statements prepared from applying the most recently adopted version of IFRS often not being in compliance with actual IFRS.

For EU member states, EC regulation nr. 1606/2002 prescribes that the adopted international standards shall be published in full in each of the official languages of the EU, as a Commission Regulation, in the *Official Journal of the European Communities*. After this translation and publication process the standards are effective for all of the member states.

Current situation in Hungary

Being an EU member state, Hungary adopts new standards and interpretations when their adoption for use in the EU is announced in the Official Journal of the European Communities.

4. Success factors in the implementation of IFRS

The countries participating in the survey have already introduced IFRS to some degree. In the following section we highlight the most important factors contributing to the success of the IFRS adoption process, which can also support be used to support an efficient implementation in Hungary.

Participating countries have identified factors they considered most useful and also those areas that could have been done differently during their IFRS adoption process.

4.1 Overall assessment of the factors influencing the introduction of IFRS

Accounting professionals in the countries participating in the survey rated the importance of the factors predetermined in the questionnaire on a five-point scale. Respondents also had the opportunity to provide further information on other contributing factors which they considered important.

The following chart aggregates the responses on the predetermined factors from the participating 20 countries. 1 rating was given for the least relevant factor, while 5 represented the most crucial factor.

Average rating of the significance of the factors in a scale of 5

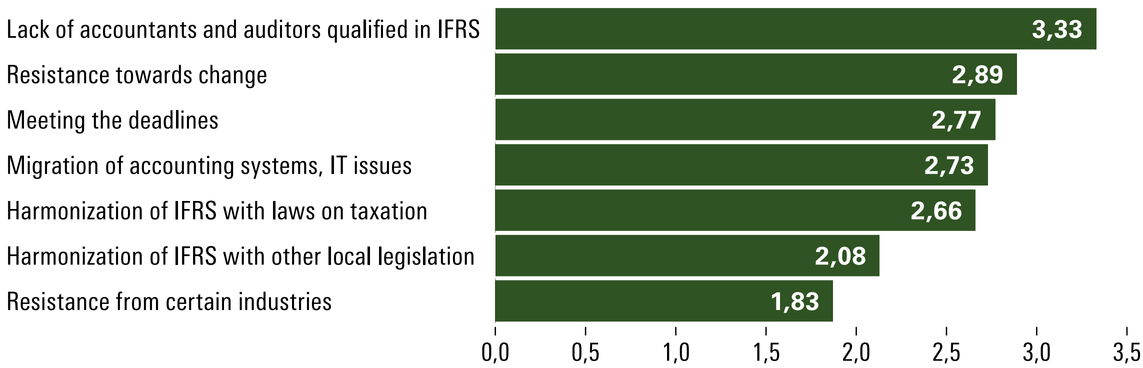


Chart 4.1. Significant factors in IFRS adoption

As the survey covers 20 countries, we have also considered the variations in responses. The responses show a relatively high standard deviation (for the factors highlighted above the standard deviation is between 0.47-1.21, the highest being "Harmonization of IFRS with laws and regulations"), which is likely due to the different conditions in the countries during the IFRS introduction. Through the evaluation of the success factors we also examined the circumstances that explain the significance of each factor. The lessons learned shall support an efficient implementation in Hungary.

Chapters 6 and 7 of this publication are dedicated to questions relating to the harmonization of IFRS with local tax (and other) legislation. Resistance from specific industries was unanimously considered an insignificant issue. As such, we will not address these points in this section in further detail.

4.2 Accountants and auditors qualified in IFRS

Considering the overall responses, the lack of accountants and auditors sufficiently qualified in IFRS was deemed to be the most critical factor for a successful implementation. It is important to note that responses for this topic varied significantly between 2 and 5 across the countries involved in the survey.

In countries that did not rate this factor as significant, either IFRS was introduced only to a narrow range of entities (e.g. listed companies, banks or other public interest entities which had already have adequately qualified accounting staff), or there were no significant differences between the local accounting requirements and IFRS. Neither of these factors are relevant for Hungary.

Ensuring accounting professionals maintain appropriate IFRS knowledge proves to be a challenge for most surveyed countries. Repeat training sessions are held, and auditors and accounting advisors are often involved in training through the transition to IFRS process. These issues were highlighted in the survey as one of the most significant factors to the successful introduction of IFRS in the countries participating in the survey.

4.3 Resistance towards change

In the field of accounting, the rating of "resistance towards IFRS transition" (as an essential condition) also showed significant deviation (values ranging from 2 to 5). In countries that experienced significant resistance, detailed communication and involvement of regulatory authorities played an important role contributing to the success during the transition period. Further, appropriate communication from regulatory bodies allowed accounting professionals to plan ahead and prepare for the next steps immediately following the decision to adopt IFRS.

Accounting experts emphasized the importance of training amongst the key success factors, and highlighted it as something that could have been improved upon. This suggests that part of the resistance from accounting experts was due to the uncertainty whether professionals would be able to meet the challenges arising from transition. Relevant training sessions not only reduce the level of resistance but also increase the quality of the IFRS financial statements. Additional issues related to training are discussed in Chapter 8.

4.4 Timeframe for transition

There are a number of questions in the survey addressing the timing of the transition to IFRS. 13 out of the 20 countries provided an exact timeframe for the transition.

Accordingly countries show the following distribution:

Period of the transition	Number of countries		
	Timeframe is sufficient	Timeframe is insufficient	No response
Not more than 1 year		3	3
More than 1 year, but less than 2 years	3		
More than 2 years	3	1	

Chart 4.2 Timeframe for the transition

In the first category, where the time to transition was less than one year, respondents advised that either the transition time period was insufficient for implementation or no response was provided.

Of the four countries, where more than a two year timeframe was available for transition, three responded that the transition time period was appropriate, and one indicated this period was too long for an efficient IFRS implementation.

Unexpectedly, in those countries where the time available for the IFRS transition did not exceed two years (the first two categories), the assessment of the importance of meeting the deadlines was below the average (around 2.3). In contrast, in countries where there were more than 2 years available to implement IFRS, experts considered this factor significantly more important (assessment 3.6).

4.5 Migration of accounting systems and IT issues

As highlighted by survey respondents, the transition to IFRS is likely to require further IT infrastructure development for many companies.

In some surveyed countries, IFRS reporting is used only for consolidated reporting. In these countries, taxes are generally based on local accounting regulations rather than IFRS and companies operate their accounting system primarily according to the local accounting standards and use computer software or excel spreadsheets to produce the data required for consolidated IFRS reporting. In countries where statutory financial statements are prepared in accordance with IFRS, and taxation is based on the statutory accounts, it is typically not required to prepare accounting records in accordance with local accounting standards for taxation purposes.

The timing of the transition to IFRS generally allows companies to assess the IT improvements needed and address relevant challenges as well.

4.6 Other relevant factors

Professionals participating in the survey had the opportunity to provide details of other key success factors for IFRS adoption

Accounting professionals in Russia identified the valuation of certain assets at the date of transition to IFRS (assessment 4) as a factor causing significant difficulties. IFRS 1 sets out the principles of how to prepare the first set of financial statements in accordance with IFRS. According to IFRS 1 (as per main rule), all assets and liabilities should be reported as if the company has always been reporting in accordance with IFRS. Application of this requirement often gives rise to significant difficulties in the valuation of fixed assets, and the standard includes an optional exemption in relation to the valuation of property plant and equipment. Companies have the option, at the date of the transition, to measure selected assets at fair value. Russia highlighted that the cost of the determination of fair value of the selected items of property, plant and equipment was significant due to the involvement of valuation professionals. If the company did not apply the exemption it incurred significant administration costs in determining the carrying amount of property, plant and equipment in accordance with IFRS.

Slovak experts identified the availability of sufficient quantity and quality of literature in the local language as a relevant factor (assessment 4). This area corresponds to the skills and qualification of accountants and auditors and has already been discussed in detail.

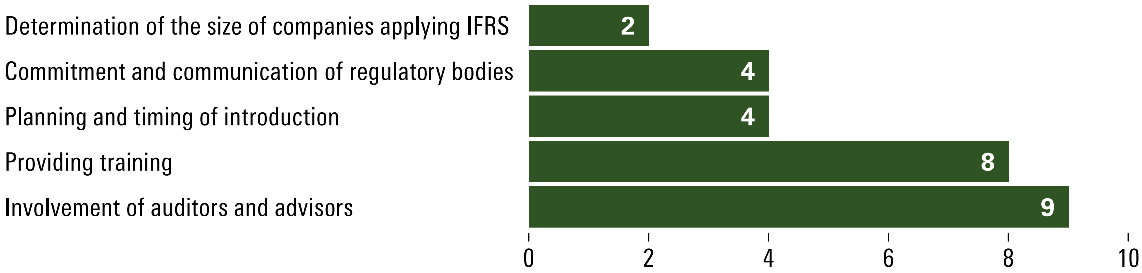
In Slovenia, the complexity and detail in applying IFRS 1 including application of a number of optional and mandatory exceptions was noted. According to the local accounting professionals a specific knowledge of IFRS 1 is a significant success factor (assessment 3) of an efficient implementation.

Ukrainian professionals noted another significant success factor (assessment 5), the adequate IFRS knowledge of the regulatory bodies. They pointed out that the introduction of IFRS in Ukraine could have been carried out more efficiently had the regulators had a better knowledge of IFRS prior to adoption had they communicated clearly and directly the need of introduction, the deadlines and the rules during transition.

4.7 Elements applied successfully

A számviteli szakemberek megjelölhették, miket tartanak a legfontosabb sikeres tényezőknek az áttérési időszak alatt. Legtöbben az alábbi területeket emelték ki.

Number of mentions as most successful elements applied during the introduction of IFRS



*As countries could point out multiple factors, the total number of responses exceeds the number of countries participating in the survey.

Chart 4.3 Successful elements during the transition period

The above-mentioned successfully applied elements relate closely to the most important success factors. Support from auditors and advisors, as well as training has increased the expertise of accounting professionals during the transition period. The commitment and continuous communication of regulatory bodies, provision of training and the involvement of auditors and advisors together can also decrease resistance to the change.

4.8 Elements not applied or incorrectly applied

Accounting professionals also evaluated the success of IFRS adoption, by providing observations on what could have been done differently for a smoother transition.

Common areas highlighted include the following (number of countries noting the issue is in brackets):

- Harmonization of tax and other legislation prior to IFRS introduction (5);
- Transitional period to IFRS was too short (4);
- Inadequate quantity (and quality) of training (4);
- Insufficient participation and communication of regulatory bodies during the transition period (4);
- Limited access to standards and literature in the local language (4).

The following further areas were noted by experts:

- Consideration of IFRS SME adoption instead of local accounting law for smaller companies;
- Lack of regulations relating to the ability to return to local accounting rules;
- Advisors should have been more deeply involved
- In some areas a materiality could have been provided in order to increase the cost effectiveness of the transition.

Lessons for Hungary

The assessment of success factors varied considerably across the countries, as each country had different pre-transition conditions and the extent of IFRS adoption was also different. To perform a successful and effective implementation it is advisable to learn from the experience of the countries where IFRS was introduced under similar conditions.

In Hungary the following factors are expected to be the most important:

1. Having sufficient qualified experts is a significant success factor, as there are many differences between Hungarian accounting standards and IFRS. It is important to organize relevant training for the professionals, and to create training materials on the transition and continuous application of the new standards.

2. Due to these differences, resistance to the change can be expected in Hungary, which can be moderated by clear communication from the regulatory bodies and continuous training.
3. Based on international experience, the transition period should exceed one year but be no longer than two years. Communicating clear deadlines helps accounting professionals to be prepared on time and accept the transition.
4. Reasonable implementation deadlines can assist in ensuring necessary IT developments are completed on time. This factor is highly dependent on the nature of each company's operations and their budget and readiness to implement system changes.
5. Translation of full IFRS literature (e.g. implementation guidance, basis for conclusion, illustrative examples) into Hungarian is critical due to the lack of English speaking professionals.

Findings related to taxation and other regulations are discussed and evaluated in a separate Chapters 6 and 7.

5. Advantages and disadvantages

In addition to the success factors it is important to consider the advantages and disadvantages of IFRS implementation. In respect to the advantages and disadvantages, the survey asked open-ended questions resulting in several but often similar responses being received. In the first part of this chapter, the different types of responses are presented and in the second part, the main advantages and disadvantages are analysed and evaluated.

5.1 Advantages

Based on the responses to the survey a number of advantages have been identified. Due to the nature of the open-ended questions, often responses were provided with different wording but with a common meaning. These responses are summarised below.

Comparability and transparency of financial statements: this advantage was clearly defined in all responses. Many respondents used the same wording for comparability and transparency such as:

- "Comparability of information"
- "Comparability and transparency of financial statements among different countries"
- "Transparency of reporting"
- "Availability of consolidated financial statements results in greater transparency to investors and other stakeholders"
- "Achieving comparability of financial statements with similar companies all over the world"
- "Easier comparison of financial statements"
- "Comparability within other companies and internationally"
- "Transparency of information, increase of transparency"

Easier access to the capital markets: in case of this response there were a number of different wordings with a common meaning. For example:

- "Access to capital market or better access to foreign investors (mostly emphasized)"
- "Claim of foreign investors"
- "Understandable for investors"
- "Companies are more attractive for foreign investors"
- "Easier comparison of financial statements especially for foreign investors"

Quality of expertise: this advantage was mentioned in a number of different ways but all to mean that due to the implementation of IFRS the quality of accounting expertise increased significantly. The following themes were mentioned:

- "Qualifications of accountants and auditors became better"
- "Lead to increased capabilities and quality of accountants in mid and long term perspective"
- "Improvement of accounting and auditing practice"
- "Improvement the skills of the profession in general"
- "Developing local expertise"
- "Increase of general knowledge about accounting and accounting standards"

Elimination of dual books: it was also clearly expressed that due to the implementation of IFRS certain groups of companies may avoid dual bookkeeping and save costs by maintaining only one set of accounting records as follows:

- "Companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide"
- "Cost saving – no dual accounting"
- "Eased the financial statements closing process for those companies which previously used to prepare reporting package in accordance with IFRS and statutory financial statements in accordance with local regulations"
- "Saving costs – one financial statements instead of two"

The following chart shows the advantages emphasized most frequently.
The number means the number of countries which mentioned the advantage.

Main advantages

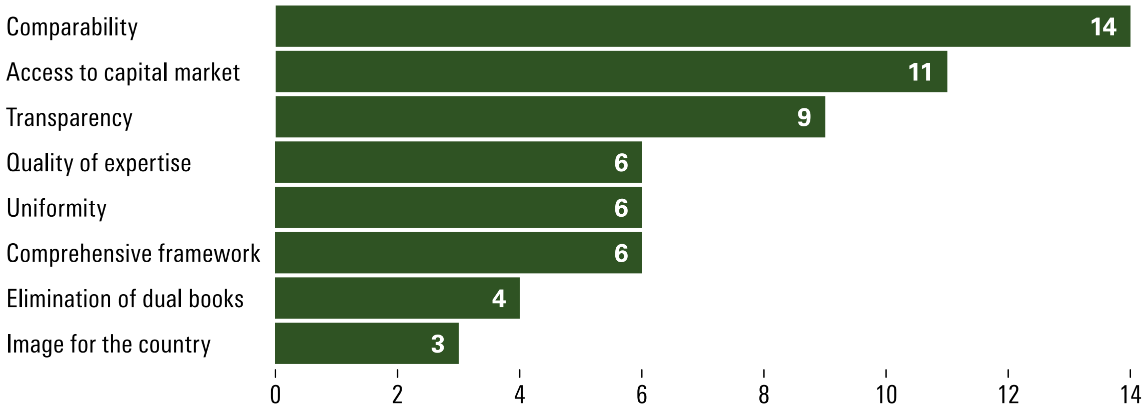


Chart 5.1. Advantages of IFRS implementation

Based on responses to the survey, the most important advantage of IFRS implementation is the increased comparability of financial statements. It is considered an essential expectation by users of financial statements, including foreign investors, that the performance of entities can be compared with each other. IFRS can meet this requirement as it is the most globally accepted accounting framework and used in many countries, including those surrounding Hungary. Increasingly more business professionals are gaining a basic understanding of IFRS so that they can compare financial information effectively. The information disclosed is more useful and meaningful since IFRS requires detailed disclosures focusing on the real substance of transactions.

Comparability of financial information is closely connected to the next important advantage – emphasized by 11 countries – which is the fact that countries and their enterprises that have already adopted IFRS have easier access to foreign investors and to the capital markets. Financial statements prepared and audited in accordance with IFRS is a minimum requirement for an entity wanting to access foreign markets and capital since investors are evaluating entities identified as potential investing opportunities. Adopting IFRS can improve the financial reporting reputation for a country and assist in the country becoming more competitive and attractive compared to those who have not yet adopted IFRS. This is an important consideration under the current challenging environment and in surviving the global crisis. Furthermore according to the responses received the financial statements are more transparent and reliable in the countries where IFRS had been implemented and form the basis of the statutory accounting.

As a consequence of the adoption of IFRS, the quality of accounting expertise increased significantly. Respondents strongly emphasized that using IFRS as the primary accounting framework resulted in the accounting practice, quality of the accountants and other professionals improved significantly. This is in line with our expectation since IFRS are principle based accounting regulations and reflecting the current complex transactions and are updated regularly according to the requirements of market changes. To be confident with IFRS and have the appropriate experience to prepare a financial statements complying with IFRS it is important for accounting professionals to maintain accounting knowledge continuously and take part in regular training.

An additional advantage of the adoption of IFRS relates to the saving of significant costs and administrative effort. Due to increasing globalization there are many companies which form part of international groups that are required to report to group management from time to time – generally under IFRS. These companies are required to maintain and comply with dual accounting regulations and develop local and group reporting processes which require significant effort and resources. In the countries where IFRS can be used as the basis of accounting – for both group and local statutory reporting purpose, the cost and administrative effort can be reduced.

5.2 Disadvantages

In addition to the advantages set out above, respondents provided several disadvantages to be considered in planning for the transition to IFRS. These were also expressed with different wording similar to the advantages and are summarised as follows:

Lack of knowledge: respondents emphasized with different expressions the lack of knowledge connecting to the implementation and maintenance of IFRS as follows:

- "Lack of knowledge of IFRS including accountants and auditors"
- "Not skilful accountants"
- "Lack of qualified staff"
- "Lack of knowledge on management and accountant level"
- "Lack of knowledge 2 IFRS standards are more complex and more detailed which places more demands on accountants and other professionals"
- "Lack of practical experience and knowledge in applying IFRS, lack of advisors"
- "Lack of expertise and experiences"
- "Lack of internal specialists in IFRS and properly qualified accountants"
- "Knowledge and quality of accountants is currently not proper and sufficient"

Cost of implementation: the following expressions were used to define this response:

- "Cost of implementation (mostly emphasized)"
- "Transition is expensive"
- "Cost and resources required"
- "Costly and time consuming"
- "Cost of transition"
- "Implementation costs are high (systems upgrade and staff retraining)"

Lack of IT and need of change of IT: this disadvantage was defined in a number of different ways including:

- "Lack of customized software for conversion of local GAAP data into IFRS Financial statements"
- "Gaps in IT support"
- "Difficulty of having related regulatory systems cope with change of accounting language to IFRS"
- "Systems changes"
- "Possible need for change of accounting program"

The most common disadvantages have been summarized and presented in the following chart:

Main disadvantages

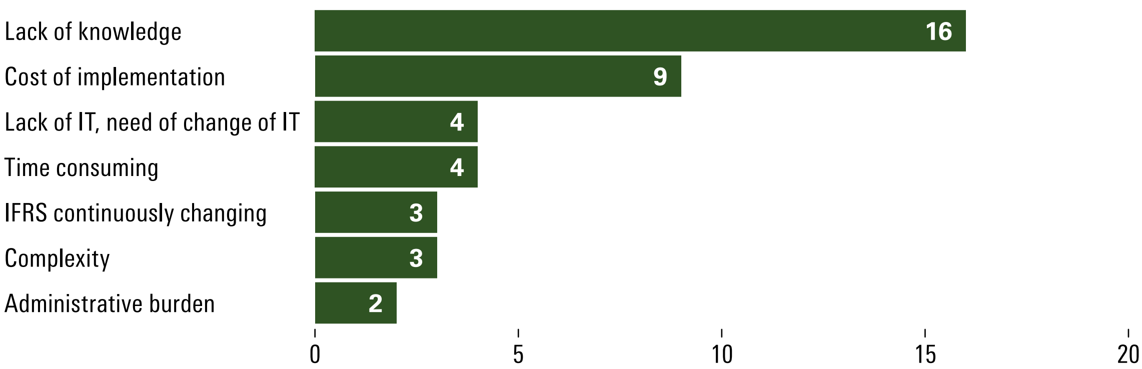


Chart 5.2. Disadvantages of IFRS implementation

The chart clearly shows that the main disadvantage of IFRS implementation is the lack of knowledge as was also emphasized in Chapter 4. Many countries emphasized that financial statement preparers do not have the appropriate knowledge and experience to be confident with IFRS implementation, application and preparation of financial statements. Users including regulators and analysts do not have sufficient knowledge to analyse the underlying substance of the disclosed amounts and are not prepared sufficiently to understand the accounting treatment of specific or complex transactions. It was also mentioned that auditors often do not have the appropriate qualifications or expertise including the inappropriate knowledge of language (English is the generally accepted language of IFRS) to be confident with IFRS and they are often not able to evaluate whether management estimates, judgments and the accounting treatment of complex or unusual transactions are reasonable and comply with IFRS. These issues can lead to misinterpretation of the standards and result in the financial statements not being reliable.

The next disadvantage is the relatively high cost of implementation often due to changes required to IT systems, the need to allocate significant internal resources to the implementation project and the need to invest in internal and mainly external education. In addition, to fully implement IFRS, entities need to spend significant time establishing internal reporting structures and IT processes to support the preparation of financial statements. The fact that IFRS are continuously changing and complex can make maintenance more difficult and result in higher costs.

Many countries included in their responses that for companies under certain-size the benefit of adoption of IFRS is unlikely to be commensurate with the cost and maintenance of the implementation.

Lessons for Hungary

From the survey it is clear that the adoption of IFRS could assist Hungary become more attractive and competitive to the wider market as IFRS can assist in opening the market to foreign investors and capital markets. Adoption of IFRS may also lead to a more comparable and transparent accounting and reporting environment and improve the country image by joining an internationally accepted accounting framework.

However, the adoption of IFRS should not be compulsory because for companies under a certain size the benefits of applying IFRS would not be proportional with the cost and investment required for implementation and maintenance.

6. IFRS and taxation

There is an obvious direct link between accounting and taxation and due to this strong correlation, analysing the impact of adoption of IFRS for local financial reporting purposes on taxation policies and practices has always been expected to be a critical issue.

In this chapter we analyse if and how implementation of IFRS for local financial reporting changed taxation policies and practices of the countries participating in the survey. The analysis focuses primarily on financial reporting and income tax because of the significant dependencies between the two.

The survey addresses both the practical changes made to tax legislation by respective countries as a result of the one-time challenge of transition to IFRS (first time adoption) as well as the way continuing differences between IFRS reporting and local GAAP reporting is addressed for taxation purposes.

Based on the results of the survey we also highlight the most critical taxation-related questions to be addressed in connection with the implementation of IFRS in Hungary for local financial reporting purposes.

6.1 Reconciliation of pre-tax income and tax base

The survey included three very specific questions regarding the connection between financial reporting and taxation. The first and most important question was "Are the laws on income taxation based on local GAAP or IFRS?" The following chart shows the structure of the responses from the various countries.

Basis for taxation

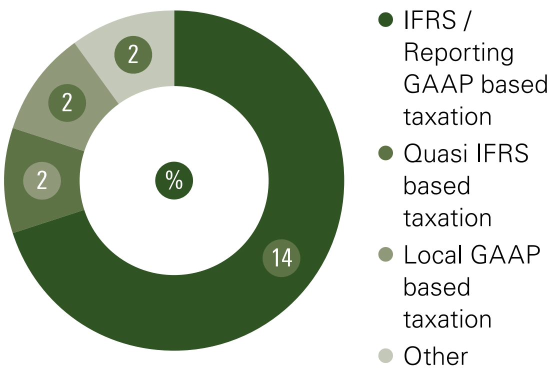


Chart 6.1: The basis for computing taxes on income in the surveyed countries

In the majority of countries participating in the survey (14 out of the total 20) the starting point of the income tax calculation is pre-tax income in accordance with reporting GAAP applied (i.e. either IFRS or local GAAP) which is then modified by the same tax base adjustments irrespective of the accounting framework applied by the company.

There are two countries (Romania and Slovakia[1]) where the rules for calculating income tax address the potential IFRS-Local GAAP differences to eliminate or minimise the impact of the election of the accounting framework on the tax position. In Slovakia the Slovak Ministry of Finance issued a specific decree (so called bridge) for companies that elected Quasi IFRS dependant taxation to reconcile IFRS profit to taxable income. The aim of the decree is to avoid double taxation of the differences between IFRS and local GAAP and prevent non-taxation of taxable items. In Romania the fiscal code was amended to include special provisions for entities applying IFRS as the basis of accounting.

1 *In Slovakia companies that prepare their individual financial statements according to EU IFRS shall determine their tax base*
- either on the basis of those IFRS financial statements with some adjustments as determined by the Slovak Ministry of Finance (so called transfer bridge), or
- can also prepare Slovak individual financial statements and determine their tax base according to those local GAAP financial statements.
Nevertheless these local GAAP "financial statements" may serve only taxation purposes, and they do not qualify statutory FS, they do not have to be approved by the general meeting, and they cannot be applied for dividend distribution either.

According to survey responses, Czech Republic is the only one where the basis for the income tax calculation is the local GAAP regardless of the accounting framework adopted by the companies, which in practice means that companies applying IFRS for statutory financial reporting must keep dual accounting records.

While in case of Estonia and Macedonia the income tax regime is unique and has little connection with the net income. In these countries the profit participation (dividend distribution) is taxed and in Macedonia certain (non-deductible) expenses are taxed also. Nevertheless there is still a connection between the financial reporting and taxation in these two countries since the distributable amount of the dividend is based on retained earnings as reported in the financial statements.

Taxation is a very sensitive area for both taxpayers and the Government since in general the Governments' goal is to maximise taxable income and collect all taxes due while taxpayers wish to avoid paying more tax than absolutely necessary. Our initial expectation was that in countries allowing the application of more than one financial reporting framework, Governments would tend to introduce certain measures to ensure that the actual basis for taxation is largely independent from the companies' choice of reporting framework applied. Considering this, it may look surprising at first that for most of the countries participating in the survey there are no special rules to unify the basis of income tax and neutralise the potential impact of an entity's selection of a financial reporting framework for statutory reporting. However, when taking a closer look, for most of the countries, local GAAP is either IFRS-based or close to IFRS (e.g. the countries of the Balkan and the Baltics), which may reasonably explain the local lawmaker's decision on this simple, less burdensome and more transparent approach. This solution may be less practical for countries where the differences between local GAAP and IFRS (being either full IFRS or EU IFRS) are considerable.

However, forcing companies to prepare separate local GAAP financial statements for taxation purposes regardless of their choice of financial reporting framework for statutory reporting may result in companies deciding to stay with local GAAP financial reporting rather than adopting IFRS. The Czech Republic is a good example of this, where the lack of harmonisation of local taxation legislation with IFRS and the necessity to maintain local GAAP financial records even for companies applying IFRS was one of the most significant reasons why the implementation of IFRS was unsuccessful in the country and only very few companies actually apply IFRS.

6.2 Transition to IFRS from taxation point of view

The second taxation specific question of the survey considered if there were any special rules or treatment in taxation for differences recorded upon transition to IFRS in the various countries surveyed[2]. The impact of initial differences on transition may be far more extensive than ongoing GAAP differences as they may represent recognition and measurement differences accumulated over all prior periods rather than the effect of only one reporting period.

Based on the survey responses, in most countries (14 out of the total 20) there are no special tax rules to apply upon transition to IFRS. This is consistent with the responses in Chapter 6.1 on the relationship between the accounting framework and basis for taxation: Czech Republic where local GAAP pre-tax income is used to determine the basis of income tax, regardless of the financial reporting framework applied by the company, the adoption of IFRS is neutral from taxation point of view and consequently the impact of the transition to IFRS is also not significant.

- For those countries where local GAAP is either IFRS-based or close to IFRS it may be reasonable to ignore the one-time differences recorded for taxation purposes on a cost-benefit principle basis as the administration burden both for the government (including the legislation, the tax authorities, etc.) and the companies concerned may overweigh the potential tax impact.

2 e.g. the whether the one-off differences recorded directly in equity at the first time adoption of IFRS were recognised as special tax base modifying items

Based on the survey responses in only 6 countries (Bulgaria, Canada, Romania, Slovakia, Slovenia and the United Kingdom) were certain special taxation rules applied. The extent that local taxation legislation deals with these one-time differences recorded at the transition from local GAAP to IFRS however is different for these countries:

- According to the survey responses Slovenia is the only country where all differences recorded directly in equity (i.e. in retained earnings) upon transition from local GAAP to IFRS are taxable in the year of the transition; but this simplified solution for Slovenia is only practical as there are no major differences between local GAAP and IFRS and the extent of the taxable differences upon transition should be limited.
- In the case of Bulgaria and Canada the restriction concerns non-current assets and it is largely limited to the fact that the cost of these assets (i.e. their depreciable value) for income tax purposes should remain unchanged.
- In the case of the United Kingdom there are some specific rules on the taxation of IFRS adjustments on transition particularly in relation to the taxation of financial instruments.

The above four countries are all common in that after transition from local GAAP to IFRS there are no further "ongoing" difference in the calculation of income tax depending on the accounting framework applied (refer to notes in 6.1).

In the case of Romania and Slovakia where the tax legislation includes specific reconciliation provisions for IFRS users, the tax rules aim to create a bridge between local GAAP and IFRS and include special provisions concerning the differences arising as of the date of transition (i.e. IFRS adjustments recorded against statutory retained earnings), which can be viewed as a combination of the measures already mentioned earlier for the other countries and certain further special rules:

- In Romania, specific transitional rules address inter alia fixed assets (when the valuation model applied under IFRS is different from statutory), the differences generated by loan loss provisions for credit institutions, etc.
- Slovakia eliminates the initial differences arising on the valuation of fixed assets at the date of transition over a 5-year period for tax purposes while certain differences in the valuation of current assets have immediate tax impact.

6.3 Taxes other than corporate income taxes

The survey intended to address other local taxes which, although do not meet the definition of income tax as defined by IAS 12 or other local tax regime, due to their nature and computation, may also be impacted by the change to IFRS. However, only a few special taxes were identified by respondents and, in each case, these taxes were in countries where the basis of the tax calculation was based on the actual financial reporting framework. Therefore this part of the survey provided limited additional information.

Lessons for Hungary

In the light of the current environment in Hungary and considering some of the specific accounting differences between Hungarian Accounting Law and IFRS in certain areas such as revenue recognition and recognition and measurement of financial instruments, it may not be feasible in the short term to disregard these differences on transition to IFRS for taxation purposes and follow the simple approach adopted by many of the countries in the survey. However, it is also not practical to follow the example of the Czech Republic and continue to maintain separate local records for taxation purposes.

A solution similar to that applied by Romania and Slovakia may be the most appropriate in Hungary i.e. incorporate special "bridging" provisions in the income tax law for IFRS users addressing the most typical and potentially significant differences between local GAAP and IFRS. This approach may require additional time and analysis prior to implementation from the government and other parties concerned as well as a post implementation review. However, it is useful to note that a) the expectation in general is that due to certain valuation differences (e.g. under Hungarian GAAP the application of the principle of prudence is more general and extensive than in IFRS) net income is recognised earlier under IFRS than under local GAAP and b) a substantial portion of the differences between local GAAP and IFRS are considered timing differences which offset longer term.

A similar approach applies on transition from local GAAP to IFRS, i.e. the most suitable approach involves identifying the most relevant and potentially significant one-time GAAP adjustments and providing entities with an option to amortize the transition adjustments for tax purposes on a systematic basis.

There are many different taxes currently in effect in Hungary, in addition to income tax, which may also be impacted by the change from local GAAP to IFRS. The most typical and significant among these taxes is local business tax payable to municipalities and in many cases this expense is a more substantial direct tax expense than corporate income tax. Issues to consider relating to local business tax include:

- The computation formula of this tax (as well as R&D tax which is largely identical to the local business tax) refers to certain income statement classification categories defined by Hungarian Accounting Law but which do not exist under IFRS.
- The most significant item in the calculation of local business tax is net sales revenue as defined by Hungarian Accounting Law, however there are considerable differences in the definition under Hungarian Accounting Law and IFRS (e.g. IFRS requires offset of various items against turnover which must be accounted for as separate expense items under Hungarian GAAP)

Accordingly, Hungary needs to consider the impact on other local taxes in addition to income tax in planning for the implementation of IFRS.

7. IFRS financial statements and related regulations

Beyond the connection between taxation and financial reporting discussed in Chapter 6, our survey also considered the relationship between local statutory financial reporting and other regulatory reporting obligations including capital adequacy compliance and dividend distributions as these matters were also expected to be critical in a successful implementation.

7.1 Additional local requirements related to accounting

The first regulatory question was to identify any additional local reporting or other requirements that exist in various countries participating in the survey in addition to preparing and filing statutory financial statements and tax returns, and which are directly or indirectly connected to financial reporting.

The question asked was "are there any additional local requirements related to accounting (not covered by IFRS) for statistical or any other purposes? (e.g. use of standard chart of accounts or format of the financial statements, additional disclosures, reporting to regulatory bodies etc.)" The question was an open question and the chart below summarises the most common responses:

Additional requirements

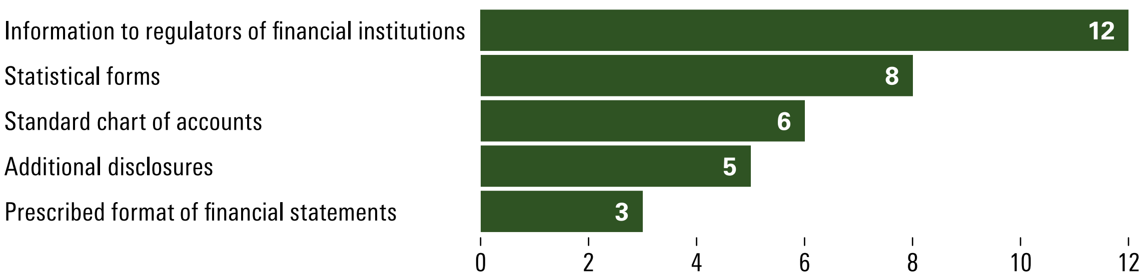


Chart 7.1. – Additional requirements for IFRS users in the surveyed countries

The most common additional reporting requirement is the provision of financial data and other information to regulators of financial institutions. This requirement was specifically highlighted in 12 countries: Bulgaria, Canada, Czech Republic, Latvia, Lithuania, Montenegro, Romania, Russia, Serbia, Slovakia, Slovenia and the United Kingdom. Reporting requirements to regulators vary by country and may include special reporting forms but in certain countries may also include filing a prescribed format of financial statements.

The second most common additional requirement is the provision of statistical forms or data to taxation or other relevant authorities. This requirement was highlighted by the following 8 countries: Bulgaria, Croatia, Czech Republic, Lithuania, Montenegro, Romania, Russia and Slovakia.

The use of a standard chart of accounts, as an additional legal requirement, is required for 6 countries: Macedonia, Montenegro, Romania, Serbia, Slovenia and the United Kingdom. In the United Kingdom this requirement is connected to taxation filings only and its aim is to facilitate the analysis of tax data for the tax authorities.

In Romania the use of a standardised chart of accounts is limited to credit institutions (prescribed by the National Bank of Romania) and for listed commercial companies (prescribed by the Ministry of Finance). While in case of the 4 former Yugoslavian countries the use of a standard chart of accounts is mandatory for all companies.

The requirement to provide additional disclosures for IFRS users in addition to the minimum disclosure requirements defined in IFRS has been noted for 5 countries: Cyprus, Malta, Slovakia, Slovenia and the United Kingdom. Additional disclosures are usually derived from certain other local laws including company law and therefore these disclosures are often mandatory for companies irrespective of the accounting framework applied for financial reporting purposes.

A legally prescribed format of the financial statements as an additional requirement is referred to by only 3 countries, namely Albania, Ukraine and Slovenia. In Albania it is noted that the use of a prescribed format for presentation of the financial statements is not a strict requirement and companies are allowed to modify the form of the financial statements for their own purposes; nevertheless in practice there are only little deviations applied.

Finally, we consider it relevant to highlight the unique situation in Russia where the preparation of IFRS financial statements is, in practice, limited to consolidated financial statements and therefore any official reporting to the authorities (tax and statistical information, reporting to regulators, etc.) continues to be based on local GAAP. The basis for assessing compliance with capital requirements or establishing the basis for dividend distribution should also be made on the basis of local GAAP amounts even for mandatory preparers of IFRS financial statements.

7.2 Capital adequacy and other matters connected to equity

The survey included various questions with an objective of identifying how capital adequacy is measured in the various countries, specifically for a number of industry groups as follows:

Capital adequacy rules for financial institutions

According to the responses, compliance with legal capital requirements in certain countries is limited to financial institutions, primarily commercial banks and insurance companies. Generally it can be concluded that the capital adequacy computation is based on the amounts reported under the actually applied financial reporting framework.

However, in the case of banks, these amounts are often modified according to specific decrees or rulings issued by the central banks of the countries in question:

Capital adequacy for banks

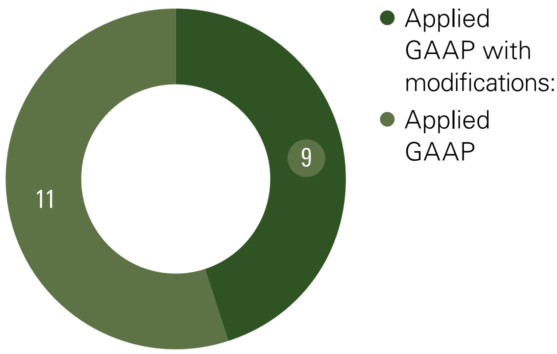


Chart 7.2: Basis for capital adequacy computation of banks in the surveyed countries

Survey respondents noted that according to specific local regulations, in preparing capital adequacy computation for banks, modifications are often necessary to the initial reported GAAP amounts in case of Albania, Bulgaria, Canada, Croatia, Cyprus, Malta, Romania, Ukraine and the United Kingdom. However, in the majority of countries no requirements for similar special adjustments were commented on.

Capital adequacy for other companies

Capital adequacy requirements for companies other than financial institutions were specifically referred to only in Bulgaria, Lithuania and Ukraine while in case of Albania, Malta, Slovakia and the United Kingdom the country responses highlighted that capital adequacy provisions are relevant for financial institutions only. In case of the other countries the survey responses were silent on this matter.

Compliance with minimum equity requirements in all cases is based on actual reported figures, i.e. the applied financial reporting framework. In addition, in all countries, distributable reserves for dividend payments are established on a uniform basis from the separate financial statements figures according to the actually applied reporting framework.

Lessons for Hungary

Additional reporting requirements

It is expected that the additional special reporting requirements of financial institutions to the financial regulator will remain in Hungary following the implementation IFRS. It may therefore be advisable to review whether the contemplated mandatory implementation of IFRS for credit institutions necessitates revisions to the computation formula of certain ratios or other changes in reporting requirements. This applies also for the various legally prescribed current reporting requirements for statistical or other reasons applicable for any companies.

Furthermore it should be determined whether certain disclosure requirements which are currently mandatory under Hungarian Accounting Law but which are not required to be disclosed under IFRS will remain applicable for those Hungarian companies which will apply IFRS for their statutory financial reporting either compulsorily or voluntarily.

Comparability and capital adequacy

Hungarian Accounting Law currently specifies the mandatory structure and elements of the balance sheet and income statement as well as the cash flow statement. Under IFRS companies have more flexibility to align their financial statements to their business activities and own characteristics. Survey responses and practical experience confirmed that allowing companies to freely shape their financial statements to a reasonable extent does not result in sacrificing the clarity or comparability of the financial statements rather on the contrary.

The survey results highlighted that capital adequacy considerations are mainly limited to financial institutions, primarily commercial banks and insurance companies (refer to chapter 7.2); and according to IFRS implementation plans, financial reporting for these industries will remain largely consistent in Hungary following implementation. Therefore the liquidity and financial position, equity structure and the results of the operation will remain comparable for these companies.

No additional issues were identified in the case of other companies allowed to apply the financial reporting framework selected for statutory reporting purposes as a basis for profit distribution and the determination of equity capital. Nevertheless it may be advisable to reconsider whether certain specific restrictions with regard to dividend distribution or other direct equity transactions will be necessary for IFRS users (e.g. restriction on distribution of gain recognised on the revaluation of investment properties).

8. IFRS training and qualifications

As IFRS is a complex accounting framework, constantly evolving to respond to the needs of users of the financial statements, appropriate training and qualifications are key to a successful implementation. There is significant diversity between the countries surveyed to training and qualifications but there are several common findings as described below.

General findings

As described in the earlier chapters, successful adoption of IFRS is largely attributable to preparers and auditors of financial information having appropriate skills in IFRS. The survey examined accounting training and qualifications which respondents ranked as the most significant success factor in each country.

The results can be summarised in the following three areas:

Preparing for transition to IFRS through training

As part of the planning for adoption of IFRS, training was held for a wide range of participants in most countries. Accounting experts and auditors of companies planning to adopt IFRS attended courses in transition methodology provided by the institutions supervising the transition, local chambers of accountants/auditors and Big 4 firms. In many countries, central banks also played a key role in preparing financial institutions for the transition to IFRS, mainly by developing the methodology and providing related training.

Accounting qualifications

The survey examined whether an IFRS qualification is a statutory prerequisite to be entitled to compile or audit financial statements in countries in which IFRS has been adopted. In the surveyed countries where IFRS has been adopted, there are no separate IFRS accountant or auditor qualifications; however, the available general accountant and auditor qualifications also include IFRS competencies. In most countries, these qualifications guarantee in-depth IFRS knowledge, which is tested in certification exams for accountants and auditors.

Many countries acknowledge the qualifications of international accounting organisations, i.e. ACA, ACCA, ACCA DipIFR, as equivalents of local qualifications.

In countries where IFRS is applied, IFRS courses are also offered by higher educational institutions as part of the broader accounting curriculum. However, higher education courses are generally not sufficient for a professional qualification.

IFRS training is generally not regulated. IFRS courses are offered by professional organisations, training companies and Big 4 firms, according to participants' needs. There are no specific regulations specifying course duration, materials and the accreditation of the training institution.

Maintaining IFRS competencies

The survey also examined whether annual update courses on changes in accounting are organised centrally or under a credit-point programme in countries applying IFRS. It is an objective and requirement in every country that accountants and auditors should attend regular IFRS training. In all surveyed countries in which IFRS is applied, updating IFRS knowledge is a requirement for accountants and auditors. Depending on the system implemented annual courses are provided under a fixed agenda or a credit-point programme.

Lessons for Hungary

The survey clearly demonstrates that appropriate, robust training and qualification systems are one of the most important success factors in implementing IFRS.

In recent years, this topic has been in focus for the Hungarian regulators as well and new qualifications and processes have been introduced by legislation (e.g. for chartered accountants and auditors) in order to ensure appropriately skilled accountants and auditors.

Should Hungary decide to further adopt IFRS, there will be a need for a more extensive training plan as the number of IFRS preparers is expected to increase significantly. Training should include specific transition requirements and include not only accountants, but also auditors and regulators. A clear plan is essential to ensure all relevant parties are included in the process. It is also important to have appropriate accreditation and quality assurance systems in place to ensure the sufficient quality of training. Besides initial transition training, a system for continuing professional development (CPD) is also required to maintain knowledge on the changes in IFRS.

Due to the significance and complexity of this project, co-operation of governmental institutions, local chambers of accountants/auditors and accounting/auditing firms will be essential for an efficient and effective transition to IFRS.

IFRS adoption questionnaire

I. General

Country:	
Completed by:	
Email contact:	

1/a Is application of IFRS required for any company in your country?

a) Yes

b) No

Questions 1/b-1/f shall be filled only if answer on Q1/a is "yes"

1/b For which companies is IFRS required?

a) Only for listed companies

b) For public interest entities

c) All companies that are not SME

d) Other (please explain)

1/c What is the scope of IFRS Financial Statements?

a) Only on consolidated basis

b) Both for consolidated and stand-alone Financial Statements

1/d What was the date of adoption? (i.e. the first balance sheet date for which preparation of IFRS financial statements was required)

1/e Which is the version of IFRS adopted?

a) as adopted by IASB

b) as adopted by EU

c) IFRS for SME

d) Other (please explain)

1/f Besides mandatory application of IFRS, do the companies need to prepare stand alone financial statement under local GAAP as well?

a) Yes

b) No

1/g Besides mandatory application of IFRS, do the companies need to prepare **consolidated** financial statement under local GAAP as well?

a) Yes

b) No

2/a Is using IFRS instead of local GAAP permitted for any company in your country?

a) Yes

b) No

Questions 2/b-2/d shall be filled only if answer on Q2/a is "yes"

2/b For what kind of financial statements is application of IFRS possible?

a) Only for consolidated financial statements

b) For all general, public financial statements

c) For public interest entities

d) Other (please explain)

2/c What was the date of adoption?

2/d Which is the version of IFRS adopted?

a) as adopted by IASB

b) as adopted by EU

c) IFRS for SME

d) Other (please explain)

2/e Is it possible to return to local GAAP, if a company has opted for IFRS before?

a) No

b) Yes (please explain)

2/f Do you have statistics, how many of the companies have opted for IFRS? If yes, please provide

3 Does your country have plans for further convergence to IFRS? If yes, please explain shortly the expected scope, deadline etc.

a) No

b) Yes (please explain)

II. Transition

Country:	
Completed by:	
Email contact	

4 How long was the period between the decision about IFRS adoption taken and the date when the law was enacted? (in month)

5/a Were there a transitional period provided by the law for preparers of financial statements?

a) Yes

b) No

5/b If yes, how long was the transitional period? (in years)

5/c Based on your experience, was the length of the transitional period appropriate?

a) Yes

b) No, it was unnecessarily long. I think ideal period is:

c) No, it was too short. I think ideal period is:

5/d During the transitional period, companies had to apply:

a) IFRS 1

b) Special, local transitional rules (please specify) (i.e. no IFRS 1 to be applied)

6 Were there any exemptions provided during the transitional period or afterwards (e.g. no need for comparatives etc)?

7 Please evaluate the following factors based on your experience!
Which was the most significant/critical factor during the implementation of IFRS?
1: means there were not any complications, 5: means it is a critical topic which brought significant difficulties

Factors	Rating					Comments
Lack of accountants and auditors qualified in IFRS	1	2	3	4	5	
Harmonization of IFRS with laws on taxation	1	2	3	4	5	

Harmonization of IFRS with other local legislation (if higher than 2, please explain)	1	2	3	4	5	
Resistance towards change (accountants)	1	2	3	4	5	
Resistance from certain industries (if higher than 2, please explain)	1	2	3	4	5	
Migration of accounting systems, IT issues	1	2	3	4	5	
Meeting the deadlines	1	2	3	4	5	
Other (please explain)	1	2	3	4	5	

8 Based on your opinion. What was the most successful element in the process? (e.g. involving accountants, auditors; giving transitional period; providing trainings etc.)

9 If you would lead the implementation project, what would you do differently?

10 What do you consider to be the most significant advantage of the transition to IFRS? (please rank the first 5)

1 ....
2 ....
3 ....
4 ....
5 ....

11 What do you consider to be the disadvantage or risk of the transition to IFRS? (please rank the first 5)

1 ....
2 ....
3 ....
4 ....
5 ....

12 **Does the local legislation requires/permits any deviation from IFRS (e.g. compulsory use of local currency as functional currency)**

a) No

b) Yes (please specify)

13/a Is the local legislation directly linked to IFRS as adopted by IASB/E.U (e.g. if the standards change, the local legislation changes accordingly without any delay or further need to enact changes)

a) Yes

b) No

13/b If no, please explain the process for implementation of changes.

III. Tax and compliance

Country:	
Completed by:	
Email contact:	

14/a Are the laws on income taxation based on local GAAP or IFRS?

a) IFRS dependant taxation

b) Local GAAP dependant taxation

c) Quasi IFRS dependant taxation (IFRS accounts adjusted by the possible IFRS – local differences)

d) Other (please specify)

14/b Are also other taxes where the calculation is based on IFRS accounts? (e.g. sales tax, industry specific taxes)

a) No

b) Yes (please specify)

15 **Were there any special rules/treatment in taxation for differences recorded upon transition to IFRS (e.g. initial differences between IFRS and local GAAP recognized as tax base modifying item)**

a) No

b) Yes (please specify)

16 What is the basis of the regulation?

a) There is one general law referring to IFRS.

b) Standards are copied into the laws (like EU decree did)

c) Other (please specify)

17 **Are there any additional local requirements related to accounting (not covered by IFRS) for statistical or any other purposes? (e.g. use of standard chart of accounts or format of the financial statements, additional disclosures, reporting to regulatory bodies etc.)**

a) No

b) Yes (please explain)

18/a How is capital adequacy for companies calculated?

a) Based on IFRS

b) Based on local GAAP

c) Other (please specify)

18/b What is the basis of dividend payment?

a) Based on IFRS

b) Based on local GAAP

c) Other (please specify)

18/c How is capital adequacy for companies and dividend calculated?

a) Stand-alone basis

b) Consolidated basis

18/d Are there any special rules for specific instruments (for example preference shares with fixed dividends)?

a) No

b) Yes (please explain)

19 If IFRS is not compulsory for all the companies, how do you provide comparability between tax bases and equity/capital requirements?

20 Are there any special cases when departure from IFRS is possible/required? (e.g transformation, liquidation)

a) No

b) Yes (please explain)

21 What are the deadlines for filing the IFRS financial statements?

22 Has the deadline changed compared to the ones applied under local GAAP.

a) No

b) Yes, under IFRS it is longer (please state the difference) ....

c) Yes, under IFRS it is shorter (please state the difference)...

23/a Does the legislation require special IFRS qualification for accountants and/or auditors?

23/b If yes, what kind of qualification is required?

23/c Is there a regulation about the required structure of the courses? (e.g. number of training hours, classroom vs e-learning etc.)

23/d Who can apply for the IFRS qualification? (any prequalifications needed?)

23/e Who can provide IFRS qualification and training? (e.g. ministry, accredited training providers etc.)

23/f Were there any centralised, mandatory training during the transitional period to IFRS?

23/e How are annual updates organised? (e.g. mandatory-centralised, or in a credit point system by training providers)

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