



**Administrative Committee
on Co-ordination**HLCM/2001/WPAS/6
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**Working Party on Accounting Standards
UNESCO, Paris, 27-29 June 2001****GAAP 2000:
A Survey of National Accounting Rules in 53 Countries**

1. (New York 18 January 2001) -- The International Federation of Accountants (IFAC) welcomes the major accounting firms' new report, GAAP 2000: A Survey of National Accounting Rules in 53 Countries.
2. IFAC President, Tsuguoki (Aki) Fujinuma said: "The Report is a critical first step in understanding the current international accounting environment. It will assist the profession to play its part in improving worldwide accounting practices."
3. The report contains summary comparisons of national accounting rules against International Accounting Standards (IASs). The great merit of this study is that it allows for easy comparison against one single benchmark. Diverse groups can benefit from the study. Investors will certainly want to know that standards differ from one country to the next, making caution necessary in the cross-border use of financial reports. Governments, regulators, standard setters, international organizations and NGOs (non-governmental organizations) also will find the report informative. It provides them a "snapshot" of the situation as of the end of 2000.
4. The GAAP 2000 report is one part of a worldwide undertaking to address World Bank President James Wolfensohn's challenge to the accounting profession to "Push the agenda for international harmonization of accounting standards to meet the needs of the global marketplace." He presented this challenge at the World Congress of Accountants, sounding a warning and call to action to preparers and users of financial statements regarding the impact of weak reporting in an economy that is increasingly global and increasingly reliant on information.

Background

5. In 1973, a group of accounting visionaries set up the International Accounting Standards Committee (IASC). Its objectives were to formulate accounting standards for the presentation of financial statements and to promote their world-wide acceptance and observance; and to work generally for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.

6. Much progress has been made since then. Today, our worldwide internet information systems and globalized capital markets make the need for a single language of financial reporting urgent. The potential for International Accounting Standards (IAS) to provide the basis for comparable cross-border financial reporting is increasingly discussed. As evidence, are: the May 2000 recommendation that securities commissions should allow multi-national issuers to use IAS for cross-border offerings and listings, subject to the use of necessary supplemental treatments; and the June 2000 recommendation from the European Commission that, by 2005, Europe's listed companies should all prepare their consolidated financial statements in accordance with IAS.

7. Across the world from Asia to Latin America, national governments, regulators and accountancy professionals are taking active steps to consider how their national accounting rules differ from International Accounting Standards, and to reduce those differences. This process will in many countries lead to a significant improvement in financial reporting transparency, but it will take time. Convergence of accounting standards will not be achieved without substantial co-operation between government, the business community and the accountancy profession. Improvements in accounting practice will also require the development of educational, professional and regulatory infrastructures. Adoption of new standards without adequate preparation may be more detrimental than beneficial.

8. Against this background of regulatory change, this publication aims to provide a "status report" of one dimension of financial reporting convergence: the extent to which, at the end of year 2000, national accounting rules are aligned with IAS. We made a selection of some 60 accounting measures in IAS. For 53 countries representing some 95% of the world's GNP, we asked partners in the large accountancy firms to benchmark their local written rules against those measures, focusing on standards (both IAS and national) in force for the financial reporting period ending 31 December 2000. The information provided in this report is a summary of the detailed responses received. These high level summaries were prepared by identifying, for the selected accounting measures, those instances where a country's rules would not allow (because of inconsistent rules) or would not require (because of missing or permissive rules) the IAS treatment.

9. We emphasize that in carrying out such an exercise there are a number of limitations, as regards scope, methodology and preparation of the summaries. These are set out in detail in Section 2 and should be referred to before reviewing any country summary.

10. We also emphasize that the speed of change and development of accounting standards across the world means that some elements of this publication are out of date almost as soon as they are printed. The IASC is of course continually developing and improving its international standards. In addition, many countries have initiated programmes to revise standards in order to reduce the differences between local rules and IAS. Indeed, in a number of countries new standards have already been issued but are not reflected in this publication because they are mandatory only after this survey's effective date of 31 December 2000.

11. With all these cautions, we nevertheless hope that the survey will provide a useful overview of accounting convergence in the year 2000.

12. Users of any particular financial information should take great care to understand which accounting rules (national or international) have been applied in preparing the relevant financial statements. And because accounting rules offer alternative treatments and are open to interpretation, users should take time to understand the particular application that has been selected by the company's management. In a number of countries, more detailed studies are available that will assist in interpreting local financial statements for cross-border use.

13. This introduction began by focusing on the urgent need for a single worldwide language of financial reporting. Much is being done to promote such thinking, and to make convergence of accounting a reality. In

the year 2000, however, it is clear from the briefest review of the following pages that there is still considerable work to be done.

December 2000

Extract from GAAP 2000 – Comments on France, UK, USA

FRANCE

French requirements are based on the Code de commerce, company law and decrees, the Plan Comptable Général (General Accounting Plan) and interpretations of the Comité d'urgence (Urgent Issues Committee) as applying to consolidated financial statements.

French accounting may differ from that required by IAS because of the absence of specific rules in the following areas:

- impairment of assets IAS 36
- impairment tests for goodwill and intangibles with depreciable lives in excess of twenty years IAS 22.56; IAS 38.99
- accounting for employee benefit obligations since it is not mandatory to recognize a liability for post-employment benefits IAS 19
- the calculation of basic and diluted earnings per share IAS 33
- extraordinary/exceptional items are defined more broadly. IAS 8.6/12

There are no specific rules requiring disclosures of:

- a primary statement of changes in equity IAS 1.7
- transactions with related parties except for limited requirements IAS 24.1/3
- discontinuing operations IAS 35
- segment liabilities IAS 14.56
- the FIFO or current cost of inventory when LIFO is used. IAS 2.36

There are inconsistencies between French and IAS rules that could lead to differences for many enterprises in certain areas. Under French rules:

- an issuer's financial instruments are not classified on the basis whether they are in substance liabilities and compound instruments are not split on this basis IAS 32.18/23
- own (treasury) shares held for stock-option plans or for trading purposes are shown as assets SIC 16
- there is a requirement to be a shareholder of a special purpose entity to consolidate a controlled special purpose entity SIC 12
- no deferred taxes are accounted for on temporary differences arising from the difference between the carrying amount of investments in associates and their tax base, unless distributions are probable IAS 12.39
- some business combinations can be treated as unitings of interest even if an acquirer can be identified, when at least 90% of the business is acquired by issuance of shares IAS 22.8
- some intangible items can be recognized as intangible assets (market shares, portfolio of customers) even if they do not meet the definition of an intangible asset under IAS; these and some other intangible assets are not required to be amortized IAS 38.7/17/93
- provisions recognized in the context of business combinations accounted for as acquisitions may be more extensive IAS 22.31
- some part of the cost of the acquisition of a subsidiary that is related to acquired research and development in the process can be recognized as an expense immediately IAS 22.27/40; IAS 38.79
- unsettled gains on foreign currency monetary items may be deferred IAS 21.15
- formation expenses, set-up costs, training costs and advertising costs may be capitalized IAS 38.56
- capitalization of finance leases is a preferred treatment but is not required IAS 17.12

- the percentage of completion method is a preferred treatment but is not required for construction contracts IAS 11.22
- provisions may be recognized in advance of what would occur under IAS, and more widely IAS 37.14
- deferred tax balances are discounted if the timing of the reversal of the temporary differences can be estimated reliably. IAS 12.53

In certain enterprises, these other issues could lead to differences from IAS:

- there is a choice of methods for the translation of the financial statements of subsidiaries that use a currency of a hyperinflationary economy IAS 21.36
- the classification of a lease as a finance or an operating lease may be based on different criteria IAS 17.3
- there is an option to present a cash flow statement reconciled to net indebtedness IAS 7.45
- when the cost of acquisition is less than the acquirer's interest in the fair values of the identifiable assets and liabilities acquired at the date of the acquisition, negative goodwill arising on the acquisition is first offset against fair value adjustments made on the acquisition IAS 22.59/63
- segment reporting can be avoided if the board of directors considers that it would be seriously prejudicial to the enterprise IAS 14
- no deferred taxes are recognized for temporary differences arising from the restatement of non-monetary assets of the financial statements of a foreign entity reporting in the currency of a hyperinflationary economy IAS 12.15/24
- when income tax loss carryforwards, or other deferred tax assets of an acquired enterprise, which were not recognized as an asset by the acquirer at the date of acquisition, are subsequently realized, the amount of goodwill is not reduced accordingly. IAS 22.85

UK

UK requirements are based on the Companies Act 1985, as amended for EU Directives. The Act states that disclosure should be made as to whether accounts have been prepared in accordance with applicable accounting standards. Accounting standards issued by the Accounting Standards Board and its Urgent Issues Task Force are applicable for the purposes of this Act.

There are inconsistencies between UK rules and IAS that could lead to differences for many enterprises in certain areas. Under UK rules:

- employee benefit costs are accounted for on a fundamentally different basis IAS 19
- there is more restriction on the setting up of provisions in the context of business combinations accounted for as acquisitions IAS 22.31
- goodwill can be treated as having an indefinite life and therefore not be amortized IAS 22.44/51
- proposed dividends are accrued as liabilities IAS 10.11
- deferred tax is calculated on the basis of timing differences rather than temporary differences, and balances are only recognized if they are expected to crystallize IAS 12.5/15
- the recognition of deferred tax assets is more restrictive IAS 12.34
- an issuer's financial instruments which are legally shares are presented in equity irrespective of their substance, and compound instruments are not split into equity and liability components IAS 32.18/23
- disclosures relating to discontinuing operations may begin later IAS 35.16
- segment reporting does not use the primary/secondary basis; and it reports net assets rather than assets and liabilities separately IAS 14.26/55/56
- cash flow statements reconcile to a narrowly defined "cash" rather than to "cash and cash equivalents" IAS 7.45

- on disposal of a foreign entity, the cumulative amount of deferred exchange differences in equity is not recognized in income. IAS 21.37

In certain enterprises, these other issues could lead to differences from IAS:

- somewhat different criteria are used to determine whether a business combination is a uniting of interests IAS 22.8
- the financial statements of a hyperinflationary subsidiary can be remeasured using a stable currency as the measurement currency IAS 21.36
- lessors recognize finance lease income on the basis of the net cash investment not the net investment IAS 17.30
- segment reporting can be avoided if the directors consider that it would be seriously prejudicial IAS 14.3
- own (treasury) shares are shown as assets; gains and losses are generally recognized as income.

USA

The United States has a very detailed framework of generally accepted accounting principles (US GAAP). This is based on accounting standards and guidance of the Financial Accounting Standards Board and those of its predecessor bodies, Statements of Position and interpretations from the AICPA and, consensuses reached by the Emerging Issues Task Force. In addition, listed companies must follow the rules, regulations and releases issued by the Securities and Exchange Commission SEC.

SIC 16US accounting may differ from that required under IAS because of less specific rules in the US as follows:

- discounting provisions is not clearly defined IAS 37.45
- the requirement for annual impairment tests when the depreciable lives of goodwill or intangible assets exceed twenty years IAS 22.56; IAS 38.99
- the requirement for segment reporting of liabilities. IAS 14.56

There are inconsistencies between US and IAS rules that could lead to differences for many enterprises in certain areas. Under US rules:

- in the context of an acquisition, part of the purchase price should be allocated to in-process research and development costs of an acquiree that can be identified and measured; these amounts are then expensed in the period after acquisition IAS 22.27/40; IAS 38.79
- the classification of business combinations between acquisitions and unitings of interest is based on compliance with a set of criteria rather than whether an acquirer can be identified IAS 22.8
- provisions in the context of business combinations can be made under less strict conditions IAS 22.31
- provisions may be recognized on the basis of the probability of outflows of resources without there always being an obligation IAS 37.14
- impairment tests use undiscounted cash flows and impairments are measured based on fair value rather than on recoverable amount IAS 36.5/58
- once recognized, an impairment may not be reversed IAS 36.95
- an issuer's financial instruments are classified on the legal form of the instrument rather than on the basis of whether they are in substance liabilities, and compound instruments are not split on this basis IAS 32.18/23

- segments are identified and information measured based on management's organization of segments for operational and internal reporting purposes, with no segment reporting on a secondary basis, although certain geographic disclosure is required. IAS 14.69-72

In certain enterprises, these other issues could lead to differences from IAS:

- some enterprises that are de facto controlled but neither majority owned nor contractually controlled may be excluded from consolidation IAS 27.6; SIC 12
- the excess of the fair value of identifiable net assets acquired over the cost of an acquisition should be used to reduce the fair values of the non-monetary assets with only any remainder being recognized as negative goodwill IAS 22.59
- inventories can be valued at replacement cost, if lower than cost IAS 2.6
- financial statements of subsidiaries in hyperinflationary economies are remeasured using the reporting currency of the parent IAS 21.36
- employee benefit past service costs must be amortized even if they are vested and an additional minimum liability may have to be recognized as a deduction of equity IAS 19.96
- discontinuing operations disclosures may be made prior to a formal announcement IAS 35.16
- defined benefit pension plans with flat-benefit formulas generally use a unit credit method to determine the liability and the discount rate used to determine pension liabilities reflects the rate at which the liability could be settled IAS 19.64/78
- deferred taxes are calculated using enacted rates as opposed to those substantially enacted IAS 12.34/47
- amortization of goodwill is based on the useful life, consistent with IAS, but is limited to 40 years whereas IAS provides a rebuttable presumption that the useful life will not exceed 20 years but does not specify a maximum life. IAS 22.44