The Impact of Applying the IFRS Accounting Rules on the Business Environment

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Abstract

Throughout this study, I have underlined the need for implementing financial accounting rules and the general features related to the described fair value, while also presenting the development of the relevant standards and the definition of IASB perception in relation to financial assets, financial liabilities and capital instruments.

A slow progress and repeated delays have helped IAS 39 remain relevant for a period longer than initially foreseen and this trend shall remain in place until IFRS 9 is implemented. This shows the ever growing importance of the topics and approaches discussed in this study.

Keywords: fair value, financial assets, IAS 39, IFRS 9, reclassification
JEL Classification: *M41.*

1. Introduction

The existing specialised literature touched on the conformity of fair value, concluding that the main purpose of standard regulation was to make the switch to a complete model for fair value. Scientists shave voiced their concerns with regards to the periodical nature of fair value accountancy.

According to Fiechter (2011b, 36), ”most banks think that IASB and FASB no longer tend towards convergence, despite the fact that previous results had shown a significant support for the convergence process among banking institutions”.

Although it is still uncertain to some extent, the IASB direction on key issues has become clearer during the past year, thus explaining the slight decrease recorded by the strongest impact generated by accounting transformations.

Among the reasons behind the existing lack of trust towards the convergence process, we can mention the disagreements generated between various departments of a banking institution, with regards to the core principle issues.

Besides, currently, there are significant deliberations related to depreciation, supported independently by FASB and IASB.

Macve (2010, 112) think that ”the accounting standards comprise a conceptual framework for their own adoption and interpretation – which is not an implementation-oriented structure”.

Avram (2011, 3) present that the purpose of a conceptual framework is ”to provide a set of consistent principles and instructions for the achievement of a pre-set goal, which, in the case of IFRS, issues preparation principles and instructions for Financial Statements”.

The steps to be taken in order to implement a change in the IFRS Standards, are not clearly explained in the standards or in the conceptual framework, and the research field has not touched on the issue of how to organise and set-up these procedural steps. (Avram et al., 2008, 37)

2. Accounting objectives and concepts specific to IFRS implementation

All external reporting by economic entities should be aimed at providing primary users with useful information for their decision-making processes related to resource allocation.

IASB (2013a, OB3) consider that ”such decisions involve granting loans as well as decisions related to acquisitions, sales and maintaining the conformity of debit instruments”.

Fiechter (2011b, 38) has been described IFRS ”as a principle-based framework, as opposed to US GAAP which is mainly based on rules. However, there were certain IFRS Standards, such as IAS 39, who have been categorised as rule-based standards, in terms of their features, although, this aspect is more widely discussed in relation to the risk-covering accountancy”.

Currently, IFRS (2013b, 770) present that ”IASB is working to complete IFRS 9, as a replacement for IAS 39, one of the reasons for this being the fact that IAS 39 had been criticised for its rule-based nature”.

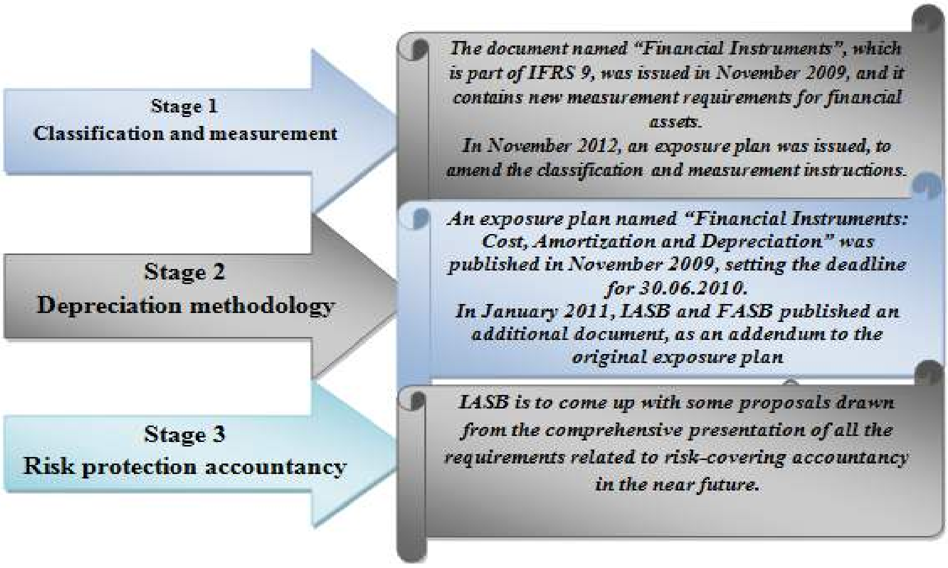
IASB decided to replace IAS 39 as a reaction to the strong critiques raised by this standard. The first stage of this process took place in November 2009, when the new measurement and classification requirements for financial assets, were published.

Unsurprisingly, given the complex and often controversial nature of this topic, the implementation of IFRS 9 was delayed by another 5 years.

From IASB’s perspective, IFRS (2013a, 303) consider that ”the most important step was the full replacement of all the financial instruments specific to IAS 39”.

The project to replace IAS 39 is based on a three stage approach - stages that are described in Figure no. 1:

Figure no. 1. Description of the IAS 39 replacement stages



Source: (IFRS, 2013a, 306-307)

The main purpose of IFRS 9: Financial Instruments is to replace the accounting requirements related to the classification and measurement of financial assets and liabilities.

Initially, IFRS (2013b, 1132) think that ”the IFRS 9 project was designed to be implemented on the same date. However, the approval process of IFRS 9 has been postponed, until the IFRS 9 project is closer to completion. IFRS users shall have enough time to prepare for the new standard’s application”.

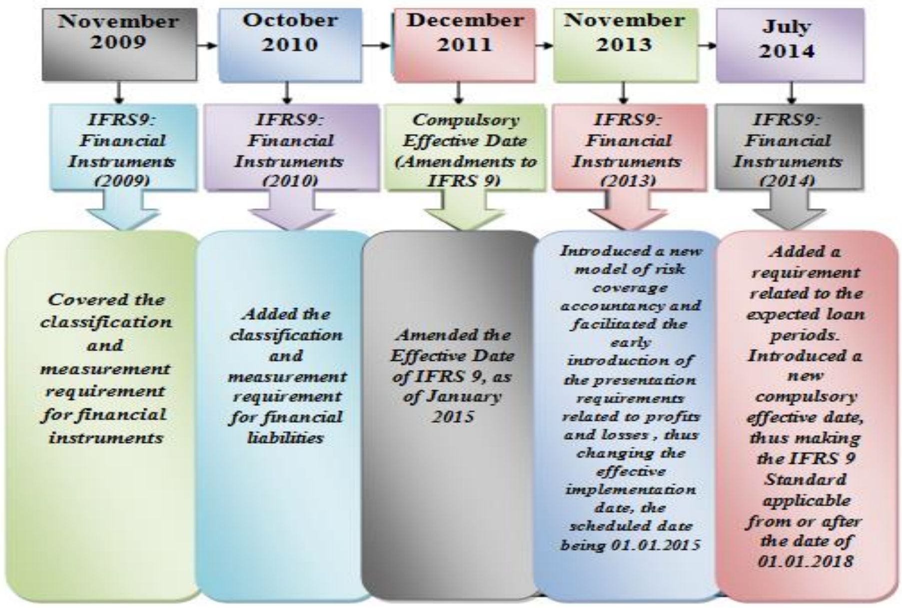
The empirical part of this analysis is done retrospectively. Thus, the reporting requirements are based on IAS 39, although the future requirements related to this research report can be used for a better understanding and observation of the economic and financial development.

3. The Impact of applying the IFRS accounting rules on the business environment

As a partial response to the implementation of IAS 39, IFRS 9 stipulates that all foreseen credit losses must be recognised in the Revenue Statements according to IFRS 9.

The following figure describes the history of the IFRS 9 Standard and the various amendments and revisions it has been through.

Figure no. 2. Evolution of IFRS 9: Financial Instruments



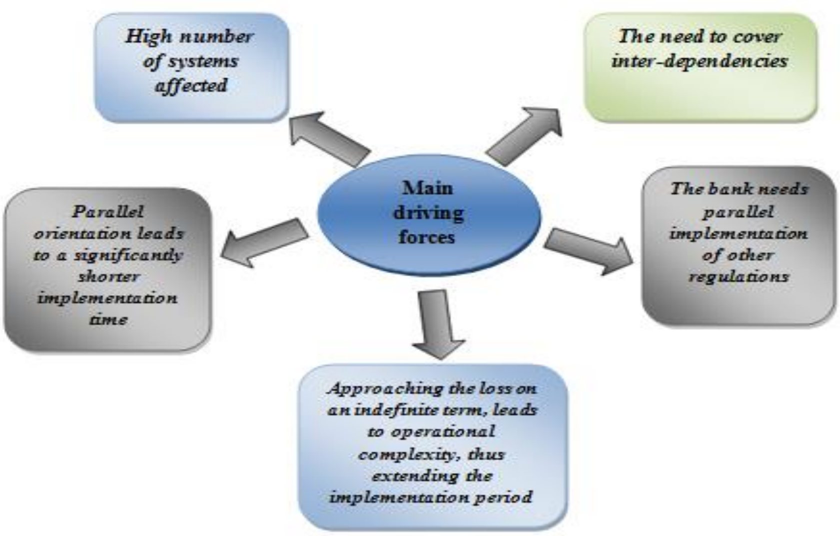
Source: (IFRS, 2013a, 303-305)

In July 2014, IASB issued the depreciation requirements stipulated by IFRS 9: *Financial Instruments*, comprising detailed instructions for acknowledging foreseen credit losses.

These requirements affected all the entities who owned debit financial assets or issued credit extension undertakings IFRS 9 (2014, 6).

If the compulsory effective date is after 2018, the implementation deadlines shall remain valid. There are many driving forces behind this, as follows:

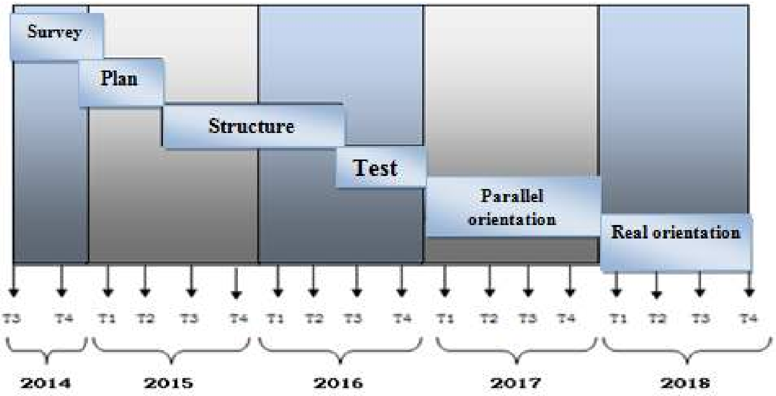
Figure no. 3. Describing the main driving forces behind the implementation of IFRS 9



Source: (IASB, 2013a, OB3)

The banking system is currently going through a mid-level stage of the management process and a well implemented structure, which are described by the figure below:

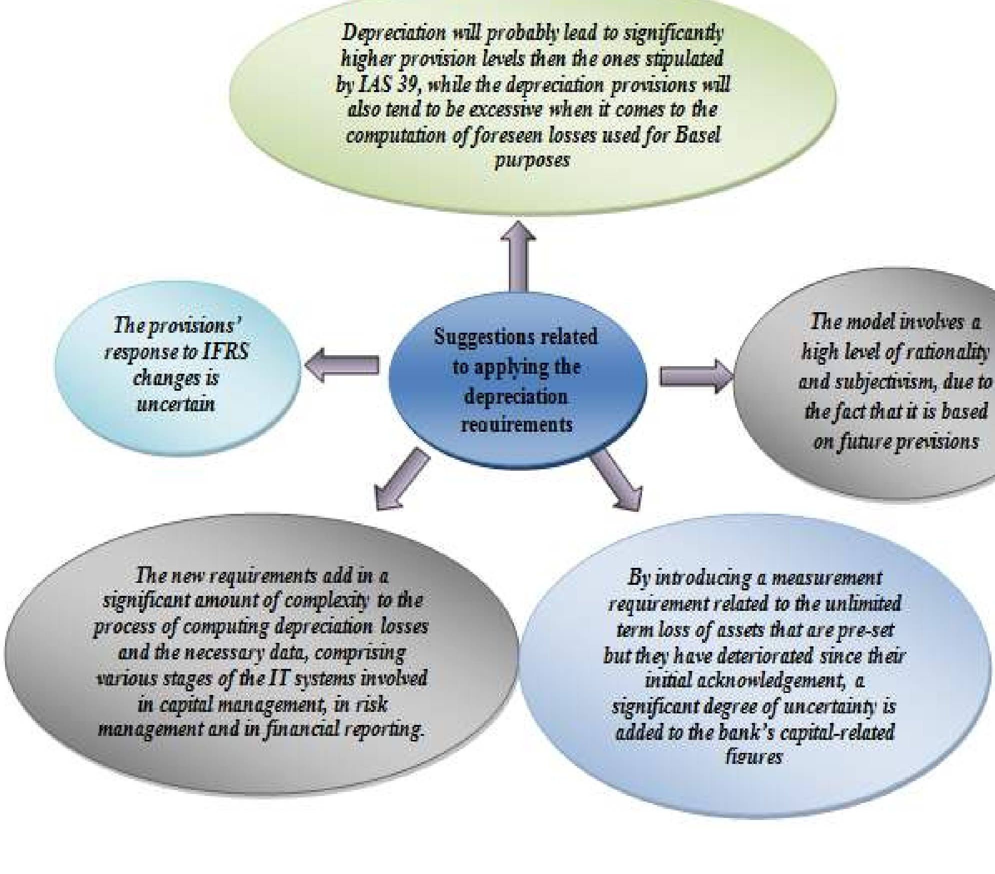
Figure no. 4. Depreciation measurement according to IFRS 9



Source: (IFRS, 2013b, 770-771)

Our analysis suggests that IFRS 9 - compliant depreciation requirements, propose the following suggestions:

Figure no. 5. Describing the categories related to the application of depreciation requirements according to IFRS 9



Source: (IFRS, 2013b, 773)

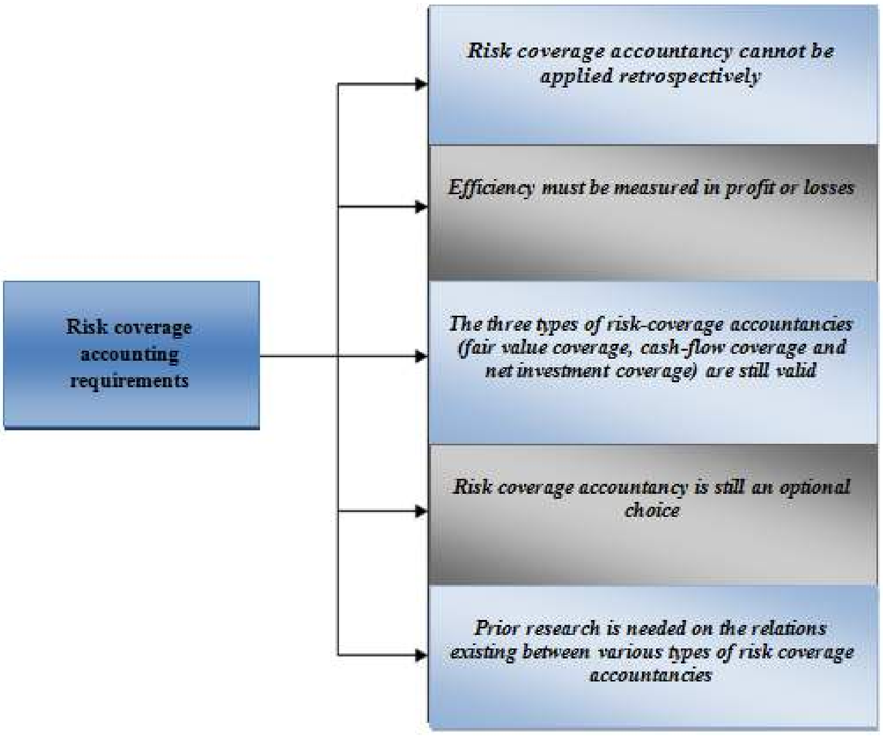
The new IFRS 9 requirements tend to rectify some of these problems, aligning the risk-coverage accountancy with other risk-management activities by means of:

- *Increasing the eligibility of both the items and the risk coverage instruments;*
- *Introducing a principle-based approach when assessing the risk-coverage effectiveness.*

Consequently, the new requirements should help reduce profit or loss volatility.

Some significant aspects of the requirements stipulated in IAS 30, remain unchanged, and they are reflected in Figure no. 6 below:

Figure no. 6. Describing the risk coverage accounting requirements



Source: (IFRS, 2013a, 1132)

The risk coverage accounting requirements stipulated by IFRS 9 should allow many entities an easier way of reflecting their current risk management activities in their risk coverage accountancy, thus reducing profit or loss volatility.

Non-financial institutions could mainly be encouraged to apply this risk-coverage accountancy, through an IFRS 9 - based approach.

4. Conclusions

The two standard implementation sections seem to prefer different models of foreseen losses.

There is an ever growing uncertainty related to the change of the results outputted by the financial instruments: compared to the conclusions drawn by previous analyses, more banks think that, the new requirements cannot be implemented in such way to increase comparability between various banks.

The high level of interest in banks' financial reporting remains unchanged, due to a large extent to the key role played by this reporting, in supporting economic activities.

There are simultaneous requests for banks to increase their capital and to borrow more, on the same time.

Besides, the recession that hit various parts of the world, the low interest rates and the significant regulation changes, lead to the conclusion that banks are forced to compete in a difficult environment.

5. References

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