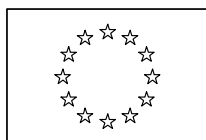


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International Accounting Standards (IAS) and EU-statistics

Prepared by Eurostat



EUROPEAN COMMISSION
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Directorate C: Economic and monetary statistics
Unit C-4: Balance of payments



International Accounting Standards (IAS) and EU-statistics

1. Background

1.1. Introduction

The purpose of this paper is to provide the members of the IMF Committee on Balance of Payments Statistics with information on the following issues.

- Recent developments on the implementation of the International Accounting Standards in Europe.
- Implications of the introduction of the IAS on different types of EU statistics.
- Implications of the introduction of the IAS on Balance of Payments (BOP) statistics.
- Recent and current activities in Eurostat addressing “Accounting and Statistics” issues.

1.2. Developments in accounting at EU level

The Conclusions of the [European Council in Lisbon in March 2000](#) entailed the accelerated completion of the Single Market for Financial Services and called for the development of large and liquid European capital markets to benefit issuers and investors. A priority objective identified in the Conclusions was the adoption in EU of common financial reporting standards. In June 2002, the EU Commission adopted the [IAS Regulation](#). It requires all EU companies whose securities are admitted to trading on a regulated market – henceforth called listed companies – to use IAS from 2005 onwards, and allows Member States to extend this requirement to all companies. Where the IAS are not applied, the Accounting Directives (78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC) will continue to be the basis of EU accounting requirements.

The IAS Regulation requires that the IAS be adopted by the Commission in the form of a Commission Regulation. The official endorsement is done at the political level through the Accounting Regulatory Committee (ARC), in which Eurostat and the European Central Bank participate as observers.

In order to ensure a proper input from all interested parties, the Commission gave origin to the European Financial Reporting Advisory Group (EFRAG), a technical group made up of highly qualified experts with assistance from the private sector. EFRAG issues technical

advice on each of the IAS. In 2003 the Commission and the ARC endorsed all existing IAS (except IAS 32 and 39 which are under review).

This led to the publication of [Commission Regulation \(EC\) 1725/2003](#) which includes the full text of the existing 32 standards in the 11 EU-languages..

In May 2003 the so-called “[Modernisation Directive](#)” was adopted. It amends the Accounting Directives. The amendments complement the IAS Regulation by allowing Member States to move towards financial reporting standards similar to IAS. In doing so, all inconsistencies with IAS have been eliminated. The Modernisation Directive potentially affects up to five million companies in the EU. After the 2004 enlargement this number will grow to seven million.

1.3 Adoption of IAS in European Economic Area (EEA) Member States

Given the link between annual accounts, distribution of profit and taxation in some Member States, each of them will move toward IAS at a pace appropriate to that particular country. Accordingly, Member States will be able to implement many of the changes by means of a gradual alignment of domestic accounting requirements with IAS. This is a matter of statistical concern.

The IAS Regulation will apply, by 2005, only for the consolidated accounts of EU listed companies. However, the Regulation allows countries to go further by applying IAS to the individual accounts of listed companies as well to the consolidated and individual accounts of non-publicly traded companies. The latest information on the plans of Member States and EEA countries is summarized in a table attached to this document. From the table it appears i.a. that 12 Member States will permit (or even require) the application of IAS to individual accounts, whereas 3 Member States completely forbid it.

1.4. The International Accounting Standards Board and the IAS/IFRS

The International Accounting Standards Committee (IASC) was established in 1973 by the leading professional organisations in Australia, Canada, Germany, Ireland, Japan, Mexico, the Netherlands, the UK and the USA.

In the 80s and 90s general acceptance of IAS was for a long time hampered by the practice of allowing several different options for meeting the requirements. This changed in 2000 when the International Organisation of Securities Commissions (IOSCO) recommended that multinational issuers on its members' stock exchanges should be able to use IAS in financial statements for cross-border offerings and listings.

At the end of 1999, the IASC decided to change its constitution with effect from 2001. The core of the new organisation is the International Accounting Standard Board ([IASB](#)) based in London and composed of 14 members with standard-setting powers

The IASB publishes its standards in a series of pronouncements now called International Financial Reporting Standards (IFRS). It also publishes a series of Interpretations of International Accounting Standards, developed by the International Financial Reporting

Interpretations Committee (IFRIC), formerly called Standing Interpretations Committee (SIC).

The set of International Accounting Standards is not a static body: the IAS are revised in order to make them consistent with the new standards. New standards are proposed and submitted for comments as Exposure Draft Standards (EDs). Following the receipt and review of comments, the IASB issues a final Standard.

The IASB is currently working on several projects for [new IAS](#). The most relevant projects for statisticians are:

- Reporting comprehensive income: where an alternative income statement is proposed, presenting a breakdown by function of operations and taking into account the effects of re-measurements due to the application of ‘fair-value’ valuation
- Accounting standards for small and medium-sized enterprises (SMEs): where a separate set of IAS for SMEs will be proposed
- Disclosures of risks arising from and other disclosures relating to financial instruments: where a disclosure of risks arising from holding financial instruments, requiring detailed and structured information by type of risk (credit, liquidity, market and other) would be required; in the case of SME these disclosures would be limited.

1.5. eXtensible Business Reporting Language

XBRL (eXtensible Business Reporting Language) is a standard data format for electronic business reporting, based on XML (eXtensible Mark-up language).

Companies are required to report more and more data to more and more internal and external authorities, including statistical institutions. One way to improve both the production and collection processes is to reduce the number of reporting media and formats: ideally, every report would be generated and sent electronically, in an automated way, and in one reporting format. It is in the interest of both reporting businesses and collecting administrations to digitalise and automate data reporting, and to use standard data formats.

XBRL is a candidate for such a scope. Behind its development is XBRL International (www.xbrl.org), a non-profit consortium of companies and organisations, representing various elements of the business reporting chain.

XBRL taxonomies can be constructed to define standard document types for specific reporting purposes. There is, for example, an [XBRL taxonomy for IAS](#). XBRL documents with actual data, called *instance documents*, are created or interpreted by software using XBRL taxonomies. XBRL software solutions are being offered by a growing number of companies, including Fujitsu, Hitachi, Microsoft, SAP, Software AG, and many others.

The key to successful harmonisation is acceptance. XBRL will be widely used if it is accepted and implemented by the major players.

The XBRL consortium currently (November 2003) has more than 200 active member organisations around the world, including – just to name a few – Bank of America, Canada Customs and Revenue Agency, CBS Netherlands, Statistics Canada, Ernst & Young, IBM, KPMG, Microsoft, Oracle, Peoplesoft, Reuters, SAP, and many more.

Statistical agencies collect more and more data from more and more data sources, including businesses. XBRL may play an important role in improving electronic data collection from enterprises and it could provide the much needed interface between accounting requirements under IAS and the (often opposing) requirements of statistics collection. The following sections try to develop on these opposing requirements.

2. IAS and different types of statistics

2.1. Introduction

On the basis of the studies and analyses performed by Eurostat and the European Central Bank it can be stated that the application of IAS will have the following impact on EU official statistics:

- In the short run, official statistics provided by statistical institutes and central banks will face risks deriving from the implementation of IAS, affecting comparability over time, over countries as well as from a cross-sector point of view.
- In the longer run, the implementation of IAS is expected to increase the overall quality of statistics (in terms of comparability, reliability and timeliness) and to reduce the reporting burden of enterprises.

This section focuses on the consequences of the implementation of IAS on National Account Statistics, on Structural Business Statistics and on Money and Banking Statistics. Section 3 will then be devoted more specifically to BOP statistics.

2.2. IAS and National Account Statistics (ESA95)

Financial accounts and non-financial national accounts by institutional sector rely on a very wide range of elementary statistics. This information is then transformed through a number of methodological steps, to compile data that follow the definitions and valuations of the European System of National and Regional Accounts (ESA 95).

The impact of International Accounting Standards (IAS), applied to companies in the EU, on ESA 95 data will generally follow an indirect path. There will be a first impact on elementary statistical sources, and only later an impact on the methodologies of transformation and aggregation. To be more precise, there will be many indirect paths, one for each Member State of the EU.

The introduction of IAS implies a discontinuity in elementary statistical sources. This will be later counterbalanced by an increase in the harmonisation of the statistical information.

National and Financial Accounts are statistics aggregated per country and collected i.a. on the basis of individual financial accounts of enterprises. The extension (or non-extension) by Member States of the application of IAS to enterprises not covered by the IAS Regulation is therefore a determining factor for the continuity and quality of these statistics.

The main conclusions of the technical comparison study by Eurostat are:

- the introduction of IAS will create a discontinuity in elementary statistical sources to be compensated later by a greater degree of harmonisation of statistical information;
- there will also be an impact on the methodologies of transformation and aggregation;
- the impact on Financial accounts is rather difficult to assess, as it is highly dependent on the definitive versions of IAS 32 and 39, which are under review;
- as book values move closer to market values (via the concept of 'fair value') they will be easier to compare internationally;

2.3. IAS and Structural Business Statistics (SBS)

A comprehensive study was started at Eurostat in October 2003 to come to a detailed comparison of the [Commission Regulation \(EC\) 2701/98 on SBS](#) and the Commission Regulation (EC 1725/2003) on IAS.

The main results of a technical comparison study of the SBS Regulation and the [4th Accounting Directive](#) were:

- terminology of the SBS regulation has been aligned as much as possible with terminology of the 4th Accounting Directive;
- where possible, the SBS regulation contains links to company accounts;
- key statistical variables can be related to the balance sheet and to the profit and loss account, where it is easier to do for the latter than for the former;
- the profit and loss account broken down by the nature of activities allows the computation of key concepts such as value added and production value;
- the profit and loss account broken down by function of activities is much less statistically usable.

2.4. IAS and Money and Banking Statistics (MBS)

Money and Banking statistics (MBS) are statistics concerning financial institutions and financial markets. Banking statistics are produced on the basis of the financial reports of the Monetary Financial Institutions (MFIs). Monetary statistics are very closely linked to the Banking statistics, but they are more general in nature (e.g. monetary aggregates calculated in accordance with harmonised definitions applicable to all EMU countries).

MBS offer sectoral information (e.g. credit institutions' loans to households, capital adequacy etc.) as well as information on market developments in the money and capital markets (interest rates, yield curves, government and other bonds etc.).

The main conclusions of the technical comparison study by the European Central Bank are:

- the IAS do not (yet) represent a stable accounting environment, as two important standards (IAS 32 and 39) for the financial sector are under review;

- the differentiated approach of Member States to extend the application of IAS to individual accounts will increase inconsistencies of reporting by financial institutions within countries;
- the adoption of IAS will necessitate changing the key regulation [ECB Regulation 2001/13](#) amended by [ECB Regulation 2002/4](#) on the balance sheets of financial institutions;
- concerning the valuation of traded loans MBS (nominal value) and IAS (fair value) differ considerably; the extension of the fair value principle to non-traded loans and deposits would increase the differences;
- the implementation of the fair value principle is likely to cause a one-off increase in balance sheet totals and greater volatility in equity afterwards;
- it is unclear whether the scope of IAS covers unincorporated collective investment undertakings;
- for monetary policy purposes, the analysis of medium to long term inflationary effects of current monetary and credit developments is likely to be complicated by the extension of the fair value principle to non traded instruments (as proposed in the amendments to IAS39);
- the harmonised and more consistent valuation for securities is welcomed for MBS, however the prospect of the adoption of the fair value principle to non marketable instruments causes concern.

3. IAS and BOP

Concerning Balance of Payments statistics, the interest for accounting has recently increased as data collection procedures are developing towards systems where companies become an increasingly important source of statistical information.

At Eurostat, the Technical Group Direct Reporting has investigated IAS. In particular a Workshop on Accountancy and BOP has been organised last year (1 March 2002, Luxembourg). During the latter, a session was devoted to XBRL. As mentioned above, this language is designed for financial reporting, but can also be used to gain statistical information. It offers the opportunity to “describe” the meaning of data through the use of specific tags (mark-up language). This characteristic could be useful for the compilation of Balance of Payments and International Investment Positions. For these kinds of statistics, in fact, the use of annual business accounting information might not suffice because of the necessity to take into account transactions / positions with counterpart non-resident and to have information about geographical and activity sector of the institutional units involved. Eurostat plans to evaluate the possible use of “micro” accounting data for statistical purposes, with the support of an adequate IT language. The Task Force Accounting and Statistics during the meeting in September 2003 decided to create a working team dealing specifically with XBRL matters. The activities encompass the development of an XBRL taxonomy for statistical purposes and the analysis of the feasibility of an EU-XBRL jurisdiction. Contacts with software developers and vendors are also taken into account.

Regarding the evaluation principles of financial instruments considered in IAS, the application of the fair value could represent a proxy of the market value for the valuation of the stock items. It has to be noted that the IAS about fair value (IAS 39¹) is still under discussion. Moreover, the accounting principles related to consolidation and disclosure of participation in Associates are particularly relevant for the compilation of FDI and FATS statistics. IAS 28 indicates that a “significant influence” is presumed to exist if the investor owns more than 20% of the Associate, while the threshold for FDI is 10%. This aspect is under examination in EUROSTAT. The accounting definition of profits has also been analyzed², with the aim to facilitate the application of the Current Operating Performance Concept for the evaluation of FDI earnings (instead of the All-Inclusive Concept).

The Task Force on Accounting and Statistics is the main forum for Eurostat for discussions concerning the subject and co-ordination of related activities. The last meeting of the Task Force was held in Luxembourg in September 2003, also with the participation of representatives of the European Central Bank and National Central Banks. The activities inside the Task Force are organized in four Working Teams. One deals with XBRL, as already said. Another team is expected to provide quantitative studies on the impact of IAS on financial reports and a tentative assessment of the consequent impact on related official statistics. A third group has the tasks to identify and prioritize essential statistics to be retained in the new context created by IAS, also envisaging a common position of European statisticians in the field. Finally, the Task Force is working on the communication strategy to have the statistical needs well understood in the IAS process.

4. Current activities at Eurostat in the field of IAS

4.1. Introduction

During the last months, Eurostat and DG Statistics of the ECB have presented “Accounting and Statistics” issues at several meetings of concerned bodies.

“Accounting and Statistics” issues have been discussed also at the meetings of the Committee for Monetary, Financial and Balance of Payment Statistics (CMFB), held in January and in June 2003. During the January meeting, two important decisions have been taken:

- To strengthen the coordination and cooperation between Eurostat and the DG Statistics of the ECB for the activities related to Accounting and Statistics, setting up a joint Eurostat/ECB steering group on “accounting and statistics”;
- To raise the attention of the EU Commission on Accounting and Statistics issues.

In taking these initiatives, Eurostat and DG-Statistics have encouraged Member States to assess the impact of IAS application on the various statistical domains under their responsibility and to develop proposals for responding to this. However, awareness and available resources for this work still seem quite low.

¹ Amendments to IAS 39 (and to IAS 32) will be probably issued by end 2003.

² See IAS No. 8: Unusual and Prior Period Items and Changes in Accounting Policy.

Eurostat placed a special emphasis on Business Statistics at the annual meeting of Business Statistics Directors (BSDG), as this is the statistical domain where critical or conflicting aspects with IAS are emerging. Business Statistics are also used as a source for National Accounts.

4.2. The Eurostat-ECB “Steering committee”

As a consequence of the January 2003 CMFB-meeting, a Steering Committee between Eurostat and ECB was set up. As International Accounting Standards (IAS) will impact differently across countries and statistical domains, the task of this Steering Committee is to coordinate a strategy of decentralisation at Working Group /Task Force level.

4.3. The Accounting and Statistics Task Force

The Task Force on Accounting and Statistics met in September 2003. In order to strengthen the exchange of information between the Member States and the EU-institutions, between the various institutions within the Member States themselves and between the different EU-institutions (Eurostat, DGs, and ECB), the meeting decided to organise the future work by teams focusing on specific issues. Specific reports by the working teams will be compiled by the joint ECB/Eurostat steering group.

The activities focus on:

1. Information Technology to support business reporting (XBRL) and proposition of a related European strategy.
2. Specific quantitative studies on the impact of the introduction of IAS.
3. An investigation into which essential statistical variables should be retained after the introduction of IAS.

4.4. XBRL

One condition for statisticians to seize the opportunities offered by IAS is the possibility to access accounting data electronically, provided they are presented according to a common standardised format. From this point of view, the use of XBRL is likely to become important to future work on accounting and statistics. The Eurostat unit “Statistical Information Technologies” has launched a project called COLTRAST focusing on the application of XBRL in connection with IAS, and its opportunities for official statistics.

Contacts have been established with XBRL international (the non-profit consortium which develops XBRL), and with the CBS (Netherlands), which is active on this issue. Eurostat is considering establishing an XBRL Jurisdiction, with the aim of enhancing cooperation between European statisticians and information technology experts.

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