

Bewildered but better informed: A qualitative study of the changing attitudes of accountants and regulators to the introduction of International Financial Reporting Standards (IFRS) in the UK

ABSTRACT

This paper explores through two sets of interviews in 2001-2 and 2003-4 the changing attitudes and beliefs held by UK based financially literate individuals about key aspects of the adoption of IFRS in the EU in 2005 and the extent to which current problems with IFRS were foreseen.

Interviewees continue to believe that the adoption of IFRS in the EU is a fundamentally good thing. Concerns grew about: the complexity of the accounting model; consistency of interpretation; the future of the UK 'true and fair view'; financial reporting for smaller entities; but particularly about US influence over the development of IFRS (following FASB's convergence agreement with the IASB) linked with a perceived decline in UK influence. The implementation of IFRS within the EU is seen as a 'top down strategy' which ignores the literature that accounting is 'context specific' and which also ignores the UK Government's own principles for better regulation.

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1. Introduction

In 2002 the European Union (EU) issued a Regulation (EU, 2002) requiring all EU listed companies to adopt IFRS (set by the International Accounting Standards Board (IASB)) for their consolidated financial statements for financial years beginning on or after 1 January 2005. The change is of particular significance in the UK because it has the largest capital market in the EU.

During 2005 a number of concerns were raised. These include: the complexity and appropriateness of the IFRS¹ accounting model; the lack of accountability of the IASB itself; the 2002 'Norwalk' agreement (FASB/IASB, 2002) reached between the IASB and the US Financial Accounting Standards Board (FASB) to converge IFRS with US Generally Accepted Accounting Principles (GAAP); the status of the UK's true and fair view under IFRS (Morley Fund Management, 2005); and the future of financial reporting for non-listed entities. A statement was made by EU Commissioner Charlie McCreevy, in October 2005 that a stable platform was needed to allow IFRS to settle down and no more IFRSs would be adopted in the EU in the immediate future (Grant, 2005a).

In this study we take a qualitative, interview based research approach to changeover. We explore the attitudes and beliefs of a group of financially literate individuals i.e. preparers, auditors and regulators who were first interviewed in 2001/2 before the EU Regulation was passed and who were interviewed again in 2003/4.

The objective of this study is to explore the changing attitudes and beliefs held by the interviewees about key aspects of the IFRS project and to identify the extent to which the problems which emerged in 2005 were foreseen by the interviewees at the first or second interviews.

The paper is divided into six sections. The first section is the introduction. In section two, we provide context and literature for the study. Section three describes our methodology. In section four we analyse the changing attitudes of our interviewees to the IFRS project. In section five we discuss whether the interview evidence and the literature predict the 2005 criticisms. Our conclusions are in section six and in section seven we consider opportunities for future research.

2. Context and literature review

2.1 Context

2.1.1 International Standard Setting

The International Accounting Standards Committee (IASC) was set up in 1973 to set standards for global use. Street (2005, p10) describes how, in 1992, led by the US Financial Accounting Standards Board (FASB), standard setters from around the world discussed co-operative efforts to improve standards with a long term goal of global harmonisation. In 1995 the IASC agreed with The International Organization of Securities Regulators (IOSCO) to complete a set of core standards for global use by 1999². Momentum to introduce common standards worldwide increased following the Asian economic crisis, when the World Bank began to campaign for one set of global accounting standards (Accountancy, 1998). In 2000 IOSCO recommended that its members permit the use of IFRS for transnational listings and issues of shares. In the same year the European Commission (European Commission, 2000) proposed that

all companies with shares listed on an EU market should prepare their group accounts under IFRS for financial years starting on or after 1 January 2005.

In 1999, the International Forum on Accountancy Development (IFAD) was created as ‘a working group between the Bank for International Settlements (the Basel Committee), the International Federation of Accountants (IFAC), IOSCO, the large Accounting Firms, the Organisation for Economic Co-operation and Development, The United Nations Conference on Trade and Development, the World Bank and regional development banks (IFAD website, 2005). IFAD’s stated mission was to improve market security and transparency, and financial stability on a global basis (IFAD website 2005). Out of this forum, the large accounting firms developed their ‘Vision’ for the accountancy profession (CPA Journal, 1999). A key plank was the use of international accounting standards as the minimum benchmark for raising national standards. The Vision sets out what it calls the ‘New Algebra’: *“transparency + high quality reporting = encouragement to inward investment; lowered cost of capital; and helps conditions for market stability and economic growth”* (IFAD, 2000).

Given the potentially increasing importance of IFRS to world markets, under pressure from FASB, the IASC was restructured, a process which started in 1999 (Street, 2005) and renamed IASB in 2001. The new board ratified all the existing standards, and determined that all future standards were to be designated International Financial Reporting Standards (IFRS). This was followed by the EU Regulation in June 2002 (EU, 2002) although at the time there was no approved suite of standards. The stated intention of the Regulation (EU, 2002) is to help to eliminate barriers to cross-border trading in securities by improving comparability, which in turn will increase market efficiency and reduce the cost of raising capital for companies within the EU.

There was also a longer term goal of reaching agreement with the SEC that overseas registrants in US markets would be permitted to file accounts prepared under IFRS without the currently required reconciliation to US GAAP. After the 2001 Enron collapse and other scandals in the US undermined confidence in accounting, the US Sarbanes-Oxley Act was passed in July 2002 reforming much of the US framework. The IASB made an agreement in the same year with the US Financial Accounting Standards Board (FASB) formalising their commitment to convergence of US and International Accounting Standards (FASB/IASB, 2002).

In September 2003, the European Commission (European Commission, 2003) endorsed all existing international accounting standards with the exception of International Accounting Standard (IAS) 32 and 39 which related to the disclosure and measurement of financial instruments³. These two standards were subsequently adopted after some EU-specific revisions. In order to support consistent application of standards, the International Financial Reporting Interpretations Committee (IFRIC) was set up. Its brief is to review accounting issues that may give rise to divergent or unacceptable treatments and issue timely guidance in the form of Interpretations.

Each member state within the EU can choose whether to permit or require unlisted companies and the individual accounts of publicly traded companies to report under IAS. After a consultation in the UK (DTI, 2002) it was decided that all British companies would be permitted to use IFRS as an alternative to UK GAAP from 1 January 2005, with a further review around 2008 to consider whether application of IFRS should become mandatory (DTI, 2003). Since then, the UK Accounting Standards Board (ASB) proposed that UK GAAP should converge with IFRS in step changes (ASB, 2004).

2.1.2 Criticisms of IFRS emerging in 2005

Jon Symonds, chairman of the Hundred Group⁴ (Jopson, 2005a) fundamentally supports global standards but expresses reservations over the conceptual framework, the use of fair values and the US influence over their form, claiming that the result is greater complexity and additional technical disclosure. The complexity issue is supported by Blewitt (2005), Wild (2005) and Bruce (2005). A key concern is that complexity may confound transparency which may in turn lead to mispricing of shares and misallocation of capital. There are further concerns about a focus on abstruse technicalities rather than fundamental accounting issues (Jopson, 2005b) and about non-standard profit measures (Jopson 2005c). It is recognised that some of the criticisms may relate only to transition arrangements (Bruce 2005).

In the wake of criticisms of IFRS, the IASB's structure and processes have come under scrutiny. Preparers (e.g. the European Roundtable of Industrialists (Larsen, 2005)) and investors (e.g. the Association of British Insurers and Investment Managers (Jopson, 2005d)) believe that they have insufficient influence over the standard setting process, although the IASB claim to be frustrated at the difficulty of involving these groups. There is also a tension between the independence and accountability of the IASB. Charlie McCreevy, EU internal market commissioner, has been amongst those questioning the political accountability of the IASB model, arguing that drafting standards is not a purely technical exercise (Buck, Parker and Mai, 2005). The DTI have supported European efforts to reform the governance of the IASB (Jopson, 2005e) and some in the profession believe that the IASB needs greater representation from countries with experience of applying IFRS (Carey, 2005).

The convergence project with Financial Accounting Standards Board (FASB) has prompted concerns that US requirements for rule based regulation as a defence against accusations of negligence may dominate the outcomes (Jopson, 2005f). Investors (Morley Fund Management, 2005) have already raised concerns over the difference between the 'true and fair view' under UK GAAP and 'presents fairly in accordance with the relevant regulatory framework' under IFRS and International Standards of Auditing (ISAs) which were adopted in the UK from 1 January 2005 (Auditing Practices Board, 2004 p4.). This has resulted in new clauses being included in the Company Law Reform Bill (DTI, 2005, para. 366) to clarify the interpretation. There are also concerns that SEC may exercise influence over interpretation of IFRS arising through its regular reviews of filings and comment letters (Jopson and Parker, 2005).

The future reporting model for companies outside the regulation remains a concern for Small and Medium Enterprises (SMEs) and the ASB has been urged by representatives of the SME sector (Grant 2005b) to avoid continuing change.

2.2 Literature Review

Between the late 1970s through to the early 1990s, styles of regulation, de-regulation and self-regulation of accounting came under scrutiny in the UK and elsewhere (see Mitnick, 1980, and Baldwin and Cave, 1999 for overviews of these developments). The focus has now shifted towards cost effective independent regulation in preference to self regulation. The UK government's Better Regulation Task Force (2003) sets out five principles of good regulation: proportionality; accountability; consistency; transparency and targeting⁵.

A classic case for regulation rests on the potential economic benefits to be derived for all parties and the achievement of a Pareto optimum⁶. In the case of financial reporting, consistent and dependable accounting disclosure is a prerequisite to effective communication (Solomons, 1991). Effective communication underpins many uses for published accounts, such as defining and applying contracts (Whittington, 1993), reducing search costs (Meeks and Meeks, 2002), countering information asymmetry between owners and managers, and between buyers and seller of shares. Information asymmetry may inhibit smooth running of capital markets, so the provision of reliable standard information to capital providers could be expected to reduce the cost of capital (Healy, Hutton and Palepu, 1999) and serve stakeholder interests (Day, 2001).

Stittle (2004) claims adoption of IFRS by the EU will facilitate cross border trading but recognises that the changeover will be difficult. He anticipates that there will be fewer problems in the UK because of the similarities between UK GAAP and IFRS. Other claimed benefits include lower cost of capital, better management decision-making, avoidance of misinterpretation and investment time lags, the saving of time and money and the general raising of reporting standards (Choi, Frost and Meeks (1999); Turner (1983); PricewaterhouseCoopers (2000)).

There are alternative views. Myddelton (2004, p92) argues that the imposition of narrowly defined accounting treatments are unnecessary, since a free market will arbitrate between approaches, and better techniques will be developed. He claims that international standards are the work of a small and unrepresentative elite. Sunder (2002) challenges the monopolistic nature of accounting standard setters and believes that competition between standard setters will improve the quality and efficiency of standards and of financial reporting. Without competition, it is not possible to assess

whether different reporting standards would lead to lower costs of capital. Allowing US GAAP and IFRS to compete would restrict political interference and cut back the cook-book approach of US GAAP.

Context sensitivity of accounting regulatory regimes is seen by some researchers as an inhibiting influence to global harmonisation. Accounting evolves within and in response to the social and political cultures in which it operates (Choi et al 1999; Nobes and Parker, 2001). Gray and Vint (1995) and Bloom and Naciri, (1989) suggest that a single regulatory system imposed externally is unlikely to succeed in every country.

Trombetta (2001) used an analytical model to show that a 'strong harmonisation regime', i.e. one in which a single GAAP is imposed in each country, is never the optimal regime in terms of information transmission from managers to investors. Schredelseker (2001) used a simulation approach to examine the value of public accounting data in the absence of market efficiency, and concludes that 'it is not always the case that the better a market is endowed with public information, the higher the welfare of investors and other users will be.' Where countries have smaller capital markets, as do a number of EU member states, controlling owners are likely to have their own sources of information. Thus the quality of published information could be less important (Myddelton, 2004).

Bush (2005) points out fundamental differences between the UK and US regimes, and believes that introducing aspects of the US regime into other countries, including the UK, is conceptually unsound. In the US federal law is fundamentally focused on securities regulation, rather than the UK stewardship and governance model, and company law operates in different models at state level. Page (2005) questions the

feasibility of achieving a global conceptual framework for accounting. He compares the search for a common framework to Lewis Carroll's 'Hunting of the Snark' where the object of the search might turn out to be less desirable than anticipated and lead to the loss of national standard setters.

Schipper (2005) raises concerns about interpretation of IFRS, believing that the demand for interpretation within the EU will be high and that IFRIC may not cope with all the requests. This could lead to a range of different interpretations and undermine the objective of common standards of reporting. She anticipates the possibility of an SEC style European securities regulator to ensure consistency, but recognises that there may be problems with reaching agreement on this within the EU. She also notes the adoption of fair value measurements will present real challenges as it requires a different sort of expertise from that in traditional accounting.

In sum, the development of strategies for global harmonisation of accounting standards may be seen as a top down strategy, promoted by securities regulators, a small number of standard setters mainly from Anglo-Saxon countries, other large global players, such as the World Bank and the Basel Committee, and seven large accounting firms (Street, 2005, IFAD, 2000). The European Commission appears to have been a late entrant to the project. Not surprisingly the strategy has been promoted by citing the benefits of harmonisation, such as the facilitation of cross border transactions and lower cost of capital, but ignoring the criticisms in the academic literature cited above, relating to context, culture and the dangers of monopoly and lack of competition.

3. Research methodology

Our empirical data comprises a longitudinal set of interviews with regulators, company directors and audit firm partners based in the UK. Longitudinal data allows the measurement of social change (Ruspini, 2000) and enables the researcher to follow particular events over time (Dale and Davies, 1994)

The first round of interviews was carried out between December 2001 and March 2002, before the Regulation (EU, 2002) introducing IFRS into the EU had been approved and before the full impact of Enron had become clear. The interviews were then repeated approximately two years later (between November 2003 and January 2004) when the implications of the 2005 deadline were becoming clearer. The prospective method was used so that separate measurements were used on each occasion to minimize memory recall problems. (Ruspini, 2000)

The interviewees were drawn from practitioners and regulators who had some knowledge about IFRS at the time of the first interviews. Two of the interviewees are company directors with accounting qualifications, one from a top 100 (FTSE 100) UK listed company (designated C1), and the other (C2) from a top 350 (FTSE 350) company with overseas subsidiaries which prepared accounts under IFRS. This company delisted shortly after the first interview. Four are audit firm partners being: one technical partner from a Big Four⁷ firm (designated P1); one Big Four audit partner (P2); one mid-tier firm audit partner (P3); and one small firm partner (P4). The two smaller practitioners were interviewed because at the time of the first interviews, no decision had been made as to whether all UK companies would be required to adopt IFRS. By the time of the second interview, the DTI had announced that smaller entities could use either IFRS or UK GAAP. However, the ASB announced plans to converge UK GAAP with IFRS thus keeping smaller firm and

companies indirectly within the IFRS loop. Four regulators (designated R1 – R4) were interviewed on both occasions, but we experienced sample attrition (Robson, 2002) as one regulator interviewed at the first round had left. We interviewed a replacement and a second regulator at the same body to cover this. In all 23 interviews were carried out. Users were not interviewed because preliminary enquiries of users indicated that they had very little awareness of IFRS at the time of either set of interviews.

All interviews carried out as part of the first round are given the additional designation (a), while those included in the second round are designated (b)⁸. One of the company directors (C2) and two of the audit partners (P3 and P4) are not involved with companies affected by the EU Regulation. All interviewees were given assurances that neither they nor their organisation would be identified in any published output.

Each interview was conducted separately at the interviewee's workplace. Two interviewers were used, and both interviewers attended the initial interviews to ensure the development of a uniform approach. A semi-structured format was used and a series of open-ended questions was drafted from the broad questions which were asked at both interviews. This gave us a framework in which to see what changes in attitudes had occurred since the first round of interviews whilst giving us sufficiently flexibility so that questions could be adapted to take account of changing events.

The following questions were framed from preliminary meetings and from reviewing the literature:

- a) Is the introduction of common accounting standards within the EU for the group accounts of listed companies desirable?

- b) How familiar are you with IFRS? What is your view of the quality of the standards?
- c) The introduction of IFRS will mean a loss of influence by UK regulators, preparers, auditors and users over the rules that govern financial reporting. Is this a worthwhile cost?
- d) What is the future form of financial reporting for those entities in the UK not covered by the Regulation? Future of UK GAAP and ASB?
- e) To what extent is it likely that there will be consistent application of IFRS across the EU from 2005?

These questions were put to all the interviewees, although their expertise, experience and interest in various questions varied considerably. Where appropriate, neutral prompts were used to encourage further explanation. Where other relevant issues emerged during the interview, these were explored (Lincoln and Guba, 1985). All the interviews were recorded in full and subsequently transcribed (Jones, 1985). Content analysis was conducted with the assistance of the QSR-NVivo software, which facilitates analysis of interview material for the purposes of qualitative research. A coding scheme was developed from the data based on identified themes, which emerged from repeated reading of the material. Coding was checked for consistency by two researchers and input into the software, from which the analysis was carried out.

4. Interview evidence

A summary of the interviewee responses to each question at each interview is provided in tables 1 to 5.

4.1 Common accounting standards for listed companies within Europe

Table 1 about here

As table 1 illustrates, the initial response of all our interviewees was unanimously supportive of the notion of harmonisation of accounting standards (apart from one regulator who felt it inappropriate to comment). The most frequently cited justification centred round the needs of investors and the capital markets. Greater transparency will allow investors better to understand the companies in which they might invest, consequently capital will be allocated and priced more efficiently. This improved general level of understanding will result in a reduction of the risk premium demanded by investors, so reducing the cost of capital available to companies. While this was considered important in the context of promoting a single European capital market, some respondents suggested that the global dimension was more important than the European one.

A related theme was that IFRS would represent a dramatic improvement to existing accounting practice in many parts of Europe:

'It's also a good thing for those countries in Europe who don't have today good accounting standards as regards information for the markets...I would argue that there are thirteen countries out of the fifteen today who need improvements in their accounting standards.' (R1a)

The argument that common standards would reduce the cost of preparing consolidated accounts for international groups was less prominent. As R5a noted, the close link between tax and accounting in many EU countries could delay acceptance of IFRS for single company accounts.

Having established their broad support for harmonisation, some respondents then went on to express some reservations concerning specific developments. An issue of concern was that IFRS would be interpreted so differently in various European

countries that the whole project would be undermined (C2a). A further concern was expressed that Euro-IFRS might develop (either through the endorsement process or subsequent interpretations), which could be at variance with the version produced by the IASB (P1a and R1a).

There was no radical change in views between the two sets of interviews and again the interviewees were supportive of common accounting standards in Europe for essentially the same reasons. However it was noticeable that more interviewees were prepared to express reservations at the second interview, often with greater force. Again there were concerns (R1b and R4b) that the new standards should be global rather than a European adaptation.

The two company directors were particularly robust in criticising aspects of the project. C1b criticised the way in which IFRS was developing, and doubted that the standards would deliver the theoretical benefits of a lower cost of capital. C2b was again doubtful that common interpretation of IFRS would be achieved, suggesting the problem might be due to a lack of will rather than transitional difficulties:

‘Various governments in Europe have got an entirely different agenda. And they prescribe precisely how certain transactions have to be recorded which are not in compliance with international accounting practices and it is extremely unlikely for political reasons that they’re going to change that view. And they will be concealed as they are at present in various countries.’ (C2b)

4.2 Knowledge and evaluation of IFRS

Table 2 about here.

As the panel of interviewees was selected on the basis that they were likely to be knowledgeable on the subject of IFRS, it was not surprising that the majority considered themselves reasonable familiar with the standards (see table 2). At the first interview all the regulators were able to talk with reasonable confidence about

IFRS, although the precise level of familiarity depended on their role and degree of exposure to IFRS. At the second interview an additional regulator (R7b) had been added who claimed a lower level of familiarity with IFRS. Change over time was most evident with the partner respondents. At the first interview only the technical partner (P1a) could discuss the issues with real confidence, but by the second all the partners felt able to engage in the debate at some level. Both company directors were able to offer opinions on IFRS, although, somewhat perversely, one of them (C2b) claimed to be less knowledgeable at the time of the second interview.

At the first interviews most respondents who felt able to express a view were generally positive about the quality of IFRS, believing them to have improved considerably over recent years (and likely to improve further in the future). Nobody suggested that IFRS was superior to UK GAAP and two interviewees (P1a and R1a) believed the quality of accounting standards in the UK would decline in 2005. At the second interview two interviewees (P4b and R3b) had moved from a broadly neutral stance to broadly negative, while R1b remained sceptical. By contrast, P2b considered IFRS '*more intellectually coherent*' than UK GAAP.

One regulator who already had experience of working with IFRS at the time of the first interviews warned that the differences with UK GAAP were greater than many people believed:

'What's interesting is you can read the standards with a UK perspective and misunderstand them...if you go in cold, reading the standards without having thought about the framework, then you can misconstrue things.' (R3a)

Some interviewees felt that the IASB tended to be too theoretical in its approach producing solutions which are '*sometimes just too difficult for companies to apply in practice.*' (R4a)

This was a view that appeared to gain more support (e.g. from C1b, P1b and R3b) at the second interviews. More specifically a company director (C1b) attacked the use of fair values in the new standards:

'What we're ending up with is a sort of fair value balance sheet, well actually not a fair value balance sheet at all. Because you've got all sorts of things missing. I mean, how do you fair value the knowledge and know-how of the people? How do you fair value the intellectual property? How do you fair value market positions, distribution, you can't fair value any of that stuff ... a constructive accounting model based on half of the things stated at fair value and totally ignoring all the other things is a complete nonsense.' (C1b)

Both company directors expressed the view that the standard setting process was dominated by large firm technical partners and preparers did not have much influence.

With respect to the position of users under the new IFRS regime, the dominant view was that analysts (and certainly other users) did not understand accounts now and were unlikely to understand them under IFRS. One regulator believed users were:

'Probably bewildered by it before, but I suppose it depends on what view you take of it...On whether it does have an effect in the short term of making profits more variable than they might be...a bit more bewildered than they were before, but arguably they're better informed.' (R7b)

The potential impact of US convergence on IFRS was raised by just one respondent (P1a) during the first interviews. Given the increasing emphasis on US convergence at the time of the second round of interviews, it is not surprising that more interviewees (notably R1, R3 and R6) had become concerned that IFRS might evolve into a much more rule based regime resulting in standards which are too detailed and offer too many alternative treatments. In particular there was uncertainty about the continued existence of the true and fair over-ride under IFRS:

'Now if you get to the point where Finance Directors are saying, 'Well, of course, I'm showing it you this way because I'm simply not allowed to show it this way in the financial accounts, because I believe this is the right way to look at it, but, you know, I'm not allowed...' I think then you start to get a

degrading of the usefulness of financial information or the reliability of financial information within a capital market.’ (P2a)

The likely loss of the UK notion of ‘substance over form’ were a cause for regret for many respondents who noted that FRS 5 had been an effective counter against ‘*all sorts of financial engineering and quasi subsidiaries and things like that*’ (R1a). However, several respondents acknowledged that such concepts would be difficult to export to countries with a more rule-based tradition, which was felt to include both the US and most of Europe:

‘But it’s not a philosophy if you like that is easily exported. ... The Americans are very keen on certainty. So they’re very keen on bright lines, and they’re saying to people, well what does it feel like, rather than what is it? Isn’t easy to explain in the US context. Equally, there are large parts of Europe which are used to the law setting accounting, Napoleonic code-type areas where the law is very black and white and so we’re really in quite a minority in the world, the UK, as regards thinking about economic substance of transactions.’ (R1b)

IAS 39 was singled out by several respondents as unsatisfactory at both rounds of interviews (‘*appalling*’ (R1a); ‘*a c**p standard*’ (P1a)), and accounting for business combinations (R1b) also attracted adverse comments. There were generally far more adverse comments on IFRS during the second round of interviews, perhaps because interviewees understood IFRS better, perhaps because the final standards for 2005 were easier to predict.

4.3 Loss of UK influence

Table 3 about here.

At the first interviews (see table 3) all the respondents believed that a loss of influence over standard-setting by UK preparers, auditors and users was inevitable, but most of these also believed that it was a necessary development in the harmonisation project and that the benefits outweighed the costs. There were indications of widespread

indifference to the loss of sovereignty from the company directors and most of the partners.

The discussion around issues of influence took place mainly in the context of UK compared with the rest of Europe, rather than globally. Some of the regulators, while acknowledging some loss of influence, also suggested that the UK probably remains the strongest voice in Europe. Firstly, because the UK has the largest capital market, it has a need for good quality accounting, and has a better understanding of what is required by capital markets. Secondly, the UK already has the most highly-developed accounting standards in Europe, and the most experienced standard-setters, and this should result in a high level of influence. This view was under-pinned by statements from the IASB that it would seek to develop IFRS in partnership with key national standard setters.

At the second interviews, the company directors and partners (except the technical partner P1b) re-affirmed their lack of interest in trying to influence accounting standards:

‘Well I tell you again - this is a large end company comment - the vast majority of them would say, ‘don’t care. Really don’t care you know, what we want is we just want one set of rules...’ (P2b)

One partner (P4b) made the point that smaller firms and companies never had any influence over the UK standard setting process, so for them little would change in changing to IFRS.

Other interviewees (notably the regulators) continued to suggest that UK influence would be worth sacrificing if it resulted in a stronger global role for Europe.

However, a number of interviewees (P1b, R1b, R3b and R6b) feared in practice, the UK's was less than it should be:

'When the IASB was formed and particularly when Europe took it's decision I could see the impact of that on the ASB and somewhere in my mind behind a whole load of mist, I had some sort of image of the ASB continuing to be an important factor in this whole thing ...I think the quality of thinking that came out of the ASB was every bit as good, possibly even better than came out of FASB. I saw David [Tweedie] being able to use the ASB as a counterbalance for FASB and I think that was an important part of the structure...As the processes continue I don't think we're managing to achieve that and whether we missed a trick somewhere along the line or whether I was totally fooling myself by thinking there was a road that ran through the mist to some desirable place, I don't know. But I have difficulty seeing how the ASB is a major force. I think it's got a transitional role but I have difficulty seeing how it's a major force.' (P1b)

By way of possible explanation, one regulator (R4b) spoke of the resentment he had observed among other European nations of the prevalence of 'Anglo voices' and the critics appeared not to discriminate between UK and US influences.

4.4 Future financial reporting for entities not covered by the Regulation

Table 4 about here.

At the time of the first round of interviews, no announcement had been made by the DTI regarding the future of financial reporting for entities not directly affected by the Regulation.

The least controversial aspect of the problem was subsidiaries belonging to a listed group. C1a made it clear that there would be real advantages to the efficiency and accuracy of the consolidation process if IFRS could be applied by all the subsidiaries within a group.

There was much more caution expressed regarding the suitability of IFRS for unlisted companies. Even enthusiasts of the project for listed companies (such as R1a) were

dubious that the principle of harmonisation was relevant for such companies, particularly at the smaller end. C2a, director of an unlisted group, believed that the intricacies of IFRS would be lost on the principal users of their accounts.

The regulators had a less practical perspective on the problem and could see the desirability of moving all companies on to a single set of standards within a reasonable period of time. One justification was that barriers should not be created between non-listed and listed companies (R1a, P3a). A more general concern (P2a, P3a, R1a, R3a) was that UK financial reporting should have an internal consistency (although given the aim of the ASB to converge its standards with IFRS, this would not necessarily require the direct adoption of IFRS). One regulator (R1a) could see the sense in maintaining a separate UK GAAP, to allow the possibility that it might diverge from IFRS *'if somebody does something really stupid internationally which we don't want to inflict on our non-listed companies'*.

There was recognition from interviewees that the needs of medium sized companies were different from small ones. There was some enthusiasm from regulators (R1a, R3a, R5a) for the idea that the IASB should develop a FRSSE based on international standards for small companies. The consensus was that this would use the same measurement criteria as full IFRS but with reduced disclosure requirements. Somewhat perversely the interviewees with the greatest experience of applying the FRSSE based on UK GAAP (i.e. P3a, P4a) were fairly lukewarm about its benefits.

When the second interviews took place, the DTI, following consultation, had announced that companies not covered by the Regulation would be given the option of staying on UK GAAP or transferring over to IFRS. Even then some interviewees noted that some detailed issues had yet to be clarified (e.g. was it possible to adopt

IFRS and then revert to UK GAAP?). One interviewee (R3b) suggested that tax considerations might drive the choice.

There was still agreement that there was a clear difference in the needs of medium companies as opposed to small ones. If anything views against the continuation of a separate UK GAAP had hardened:

'We don't want three sets of standards. We don't want listed IAS, big GAAP for UK but not listed and little GAAP. We want a set of standards for companies which are complex entities and little GAAP. And I think that is where we've got to go... By 2010 I would expect UK standards to have essentially become IAS standards, apart from small GAAP' (P1b)

P2b noted that the examinations of the professional accountancy bodies had largely moved over to IFRS, and suggested this would hasten the demise of UK GAAP.

Little progress had been made on developing an international FRSSE by the time of the second interviews, but it remained the preferred small company solution, with some (e.g. R6b) suggesting that its use might be extended to medium enterprises.

One regulator expressed a new doubt that the needs of the smallest companies would be met by an IFRS based FRSSE:

'The UK perception is that you have a FRSSE and the FRSSE says you retain the measurement principles and you reduce the disclosures. But the measurement principles, as I said earlier, are getting more and more technically pure but perhaps slightly impractical. So there must be questions about how sensible it is to require two sweet shops merging to identify goodwill and all the other things they are obliged to do.' (R3b)

The audit firm partners interviewed were asked what advice they would give to their clients regarding the possible transition to IFRS. Given that the DTI had yet to pronounce on the subject, they were understandably cautious at the first interviews.

At the second interviews, partners in the smaller practices (P3 and P4) remained doubtful that the best interests of their clients would be served by moving to IFRS:

'I think anybody who is advising them to do anything more than sit tight is probably trying to find a way of earning more fees without providing more value.' (P4b)

The partners (e.g. P2b) in the large firms denied that they would actively promote moving to IFRS among their clients.

An issue related to the nature of financial reporting for non-listed companies is the future of the ASB, particularly if some form of IFRS were extended to all companies, thereby eliminating the ASB's core role of setting standards. At the first round of interviews there was some support for the ASB having a continuing role, particularly among the regulators (e.g. R1a), who believed it to be influential on the global stage. However, one partner (P1a) noted that the effectiveness of the ASB was in large part due to the involvement of representatives from industry, who might be more reluctant to be involved when major decisions are taken elsewhere.

Given that at the second interviews fewer believed that a separate UK GAAP could be justified in the medium term, some suggested that the ASB's future role rested in matters other than standard setting (e.g. corporate governance). Others were less convinced it had a future (e.g. R3b suggested that the 'think tank' role should be taken on by the professional bodies).

4.5 Interpretation of international accounting standards

Table 5 about here

None of the interviewees at either interview believed that IFRS would be interpreted in a common and consistent way throughout Europe immediately after their

introduction in 2005 (see table 5). There was something of a division between those who thought that the differences were temporary in nature while a common approach became established and those who were rather more cynical about the motives of participants.

At the first interviews, both company directors questioned whether the will to achieve common interpretation existed in some European countries. The optimists believed that the adverse effects would be reduced as a result of a number of factors. One of the partners (P1a) suggested the large audit firms, through their global networks, would have a major impact in establishing common interpretation. Another (P2a) made the point that companies which formed part of multinational group would achieve consistency via group prescribed policies and culture. Although the existence of IFRIC was not widely known, one regulator (R4a) considered their role to be fundamental in preventing widespread differences in interpretation. Even some with a positive medium term view (e.g. P3a and R1a) were concerned that in the short term some preparers might exploit the uncertainty created by the transition. Two regulators (R4a and R5a) expressed concerns that the temptation to develop Euro-interpretations (i.e. different from standard IFRS) might prove too strong.

By the time of the second interview, presumably having given the issue greater consideration, interviewees were able to articulate with greater clarity how interpretation differences might arise:

'You can take a standard such as the leasing standard and find that the words in the international standard are very similar in certain areas to the words in the UK standard. So there is a natural assumption that the result under the international standard will be the same as under the UK standard until you start talking to people from other countries...So you will get a period of time companies all round the world saying they're following IFRS and then one year, two years, three years, four years down the line altering things, where the standard hasn't changed because they say "Oh! We now realise how the

rest of you do it.” And I think it’s inherent in the process because you’re trying to bring together all these cultures and backgrounds and things.’ (P1b)

With respect to the specific transition from UK GAAP to IFRS, two interviewees (C1b and R1b) implicitly expressed greater optimism on the second interview. One theme that emerged much more strongly in the second interviews (from P4b, R2b and R3b) was the potential huge workload faced by IFRIC from 2005, particularly with requests for further guidance from EU countries used to a rules based system rather than one based on principles. For the same reason, there were continuing concerns (R2b and R6b) that European interpretations might be developed by a securities regulators or similar institution. A number of interviewees (P2b, R1b and R6b) reiterated the point that the global audit firms had a large responsibility in minimising interpretation differences without their interpretations becoming ‘institutionalised’. One regulator (R1b) suggested that the SEC might become a significant interpreter of IFRS, simply because it regulates the world’s largest capital market.

5. Discussion

5.1 The harmonisation vision

The objective of global harmonisation has been promoted by such powerful forces as the largest accountancy firms, securities regulators, leading standard setters and the World Bank (Street, 2005). These institutions believe common accounting standards are fundamental to the continued development of global securities markets. Our interviewees accepted the arguments for harmonisation and were unchanging in the belief that it was desirable for Europe to move towards common standards. Press comments do not suggest in principle that European convergence is a bad idea.

5.2 Convergence of IFRS with US GAAP

The impact of the convergence agreement between the IASB and FASB (FASB & IASB, 2002) has prompted much comment as it was not signalled as part of the European agenda. Our interviewees, particularly at the second round of interviews, picked up the issue quite strongly, especially as the convergence project was perceived to have delayed the completion of the standards for Europe. There was little confidence that the US convergence project would deliver anything other than a version of IFRS heavily influenced by US GAAP. There were concerns that IFRS might evolve into a rule-based regime, because that form of regulation best meets the needs of the litigious US environment. The same issue has subsequently been critically analysed in the press (Jopson, 2005f). If the convergence project is a success, most of the largest companies in the world would be subject to a single set of accounting standards, although Sunder (2002) and Myddleton (2004) warn against creating monopolistic standard setters, arguing that competition ensures quality and efficiency in accounting standards.

5.3 Loss of UK influence

When our interviewees were questioned about the UK's loss of influence over standard setting, the 'outsiders' (i.e. company directors and small firm partners), who never believed that they had any influence, were indifferent at both sets of interviews. However, it was noticeable that the views of many of the 'insiders' (regulators and large firm partners) did change. At the first interviews there was little concern about loss of influence as this was seen as a worthwhile price for European convergence. By the time of the second interviews a number of insiders expressed surprise at the relative lack of influence the UK was able to exercise on the process, related to concerns that the US is having too much influence over IFRS. In the press this has developed into a debate about the governance and accountability of the IASB (e.g.

Buck et al, 2005; Carey, 2005; Jopson, 2005c;). Myddleton (2004) suggests that international standard setters are an unrepresentative elite.

5.4 Complexity of IFRS accounting model

Some of our interviewees expressed reservations about the complex and technical nature of IFRS, (particularly the move towards fair values) especially at the second round of interviews. There were concerns that the theoretical approach adopted by the IASB would impose excessive burdens on preparers. Such criticisms have been echoed in the literature (Schipper, 2005) and in the press from all sections of the accounting community (Jopson, 2005a; Jopson, 2005b; Blewitt, 2005). Some current critics have logically extended the above argument to suggest that there were dangers that it would not produce the anticipated benefits because users would not understand the information generated (Wild, 2005; Bruce, 2005). The interviewees frequently expressed doubts that users would understand financial statements produced under IFRS. However, they tended not to link this observation back to the arguments for harmonisation. Given the increased cost of compliance and the possibility that the promised benefits may not materialise, we question whether the EU IFRS project would satisfy the UK Government's principles for regulation (Better Regulation Task Force, 2003) in respect of proportionality and transparency.

Some interviewees linked the theoretical nature of the standards, with a standard setting process dominated by technical experts to the exclusion of preparers and users. This theme has been discussed in the press recently (Larsen, 2005; Jopson, 2005d) However, regulation over financial reporting is always going to assume greater importance to 'insiders' who will be prepared to devote more resources to it.

5.5 Issues specific to the UK framework

There is considerable support in the literature for the view that accounting regulation evolves in response to its context and that imposing an external regulatory system may be unsuccessful (Nobes and Parker, 2001; Choi et al, 1999; Gray and Vint, 1995; Bloom and Naciri, 1989). Complications arise if one aspect of regulation is harmonised, but others are excluded. For example the status of the UK true and fair view under IFRS was a concern to some interviewees and was raised again by institutional investors (Morley Fund Management, 2005) leading to a debate in the press and eventually resulting in a change to the Company Law Reform Bill (DTI, 2005, para 366). Concerns about context were more closely linked to US convergence at the second interviews, but also existed at the first interviews among interviewees who realised most European countries have a rule based tradition.

Another example is the future of financial reporting for UK companies not covered by the Regulation (EU, 2002). Among our interviewees there was little belief that the full set of IFRS standards was appropriate for the majority of unlisted companies and their users. Equally a parallel system comprising IFRS and UK GAAP was generally considered undesirable on the grounds of cost and consistency. These issues emerged particularly at the second interviews. A number of interviewees considered that the solution might be reporting standards for smaller entities based on IFRS with the same measurement principles but reduced disclosure requirements (although one regulator noted that even the measurement principles in IFRS were often complex and difficult to apply). Some interviewees questioned whether medium sized companies should also benefit from reduced reporting requirements, although it was also recognised that their needs were not necessarily the same as small ones. Recent press reports refer to calls for convergence of UK GAAP with IFRS to be delayed (Grant, 2005b) to ensure that SMES do not have to endure that change followed by another

when the IASB produces a second set of standards for SMEs. It is evident that when the decision to adopt IFRS for listed companies was made, no plan was in place for the future of financial reporting for the majority of UK companies which are not listed, but are required to file GAAP compliant. In respect of SMEs the IFRS project does not meet the Better Regulation Task Force's (2003) principles of proportionality and targeting.

5.6 Interpretation

Our interviewees expressed little confidence at either interview that application of IFRS would be consistent across the EU in 2005. The main fear expressed (from regulators and the technical partner) was that a European version of IFRS might develop so undermining any attempts at global convergence. Although there is literature (e.g. Trombetta, 2001) that questions whether harmonisation will produce the expected benefits, our interviewees are either unaware or unconvinced by it.

IFRIC was not known except by regulators and large firm partners, but at the second interviews our interviewees had begun to appreciate the potential importance of its role. They also expressed doubts about its ability to deal with all the issues of interpretation which might be referred to it, particularly from countries used to detailed accounting rules. This point is also raised in the literature (Schipper, 2005). If IFRIC is unable to cope, then interviewees feared that other regulators might engage in interpreting IFRS from their own perspective. One of the interviewees voiced the more specific concern that the SEC could become a major interpreter of IFRS because of the size and importance of the capital markets under its jurisdiction and because a number of the largest EU based companies had a dual listing in the US. This has been picked up in the press as another potential aspect of US domination (Jopson and Parker, 2005).

6. Conclusion

In this paper we explore longitudinally the changing attitudes and beliefs held by a group of knowledgeable UK interviewees about key aspects of the IFRS project and identify the extent to which the problems which emerged in 2005 were foreseen by the interviewees at the first interviews in 2001/2 and the second interviews in 2003/4.

The interviewees remained fast in their belief at both interviews that the adoption of IFRS in the EU was a fundamentally good thing and that little attention appeared to have been paid to the academic studies which emphasise the importance of specific country context or the problems this can cause in achieving convergence. Concerns were expressed to some extent at the first interviews about the future of reporting for SMEs, the complexity of the accounting model, particularly relating to fair values, the future of reporting by SMEs, consistency of interpretation and the future of the UK true and fair view. These concerns were re-iterated more strongly at the second interviews as the reporting date grew nearer.

There was virtually no concern about US influence on the IASB standards at the first interviews. Dissatisfaction had grown considerably by the time of the second interviews because of the IASB/FASB agreement to converge standards. This was viewed with great suspicion and regarded as a back door means of introducing US GAAP to the EU.

Interestingly, the greatest change between the two sets of interviews was the realisation, which did not emerge at the first interviews that the UK loss of influence over standard setting was a significant problem. At the first interviews this was generally regarded as a price worth paying to achieve harmonisation within the EU,

but serious doubts had emerged by the second interviews from those who had previously been able to exert influence that the project was beyond their reach and subject to too much US influence.

Issues were the subject of debate in the press in 2005 as companies converted to IFRS were the complexity and appropriateness of the IFRS accounting model, the lack of accountability of the IASB itself, the 'Norwalk' agreement reached between the IASB and the US FASB to converge IFRS with US GAAP, the status of the UK's true and fair view under IFRS, and the future of financial reporting for non-listed entities.

All these issues were flagged up to some extent in our interviews and concerns about them appear to have grown since our second round of interviews. The issue that was identified the least was the accountability of the IASB. This was partially identified as a loss of influence by the interviewees but the accountability issue was not fully grasped.

The UK's model of accounting regulation has traditionally paid attention to a 'think small first' model as all companies have to prepare GAAP compliant accounts. This regulatory model has been reinforced by proportionality and targeting principles of the Better Regulation Task Force (2003). The decision to adopt IFRS throughout the EU has turned this on its head into a 'top down strategy' and it would seem that the problems which are emerging in the UK may be partially attributable to this change, and attributable to the insufficient attention being paid to issues which are specific to the UK context and its regulatory framework.

It was one of the regulator interviewees who believed that users would be 'bewildered but better informed'. This paper raises the question as to whether IFAD's 'new

algebra' is truly achievable or whether the accountancy profession and regulators are 'hunting a snark'.

7. Opportunities for future research

We suggest that similar qualitative studies could be carried out in other EU countries to establish whether the views of key players are the same as those in the UK, and if not, how they differ. Further research is also needed on optimal regulatory and accountability models for standard setting and the reporting needs of SMEs in a standard setting environment that is primarily focussed on global capital markets. Research could also be carried out into how many companies are truly global and the extent to which users will benefit from this very costly change. The rhetoric of the vision has yet to be fully tested.

Notes

- ¹ Throughout this paper we refer to International standards generically as IFRS, except from a direct quote.
- ² See Street (2005) for a more detailed history of the development of the IASC during the 1990s and the significant influence of the FASB and the G4 + 1 technical group, comprising representatives from standard setters in Australia, Canada, New Zealand, UK and US on development of policy in international standard setting.
- ³ Endorsement is the responsibility of the European Commission who seek advice from an expert group - EFRAG (European Financial Reporting Advisory Group),
- ⁴ The Hundred Group's members comprise the Finance Directors of the UK top hundred listed companies.
- ⁵ The five principles are defined as follows: proportionality – regulators should only intervene when necessary. Remedies should be appropriate to the risk posed, and cost identified and minimised; accountability - regulators must be able to justify decisions and be subject to public scrutiny; consistency - government rules and standards must be joined up and implemented fairly; transparency - regulators should be open and keep regulations simple and user friendly; targeting - regulation should be focussed on the problem and minimise side effects.
- ⁶ Pareto criterion for social choice is a well recognised measure. Options are considered which can make some agents better off without others being worse off.
- ⁷ The Big Four currently comprise: PricewaterhouseCoopers, KPMG, Deloitte and Ernst and Young.
- ⁸ So the designation (R1b) would be a reference to the second interview with regulator 1.

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Table 1

Is the introduction of common accounting standards within the EU for the group accounts of listed companies desirable?

Inter-Viewee	Response interview 1	Response interview 2
C1	Yes – comparability in single EU market.	Yes – need for comparable global standards, Europe is a reasonable start. But standards moving in wrong direction. Don't see how applying IFRS will reduce cost of capital.
C2	Yes in theory. Different interpretations in practice.	Yes – but achievable in practice?
P1	Yes – need for common language to meet needs of international markets. Europe wants a European market in financial services –so it needs a common language. Logical to pick up IFRS. Will support international harmonisation, but not if we develop our own rules. Danger of that receding.	Yes- common accounting standards required for global markets. Better knowledge will lead to better pricing & better allocation of capital. Long term better understanding of all companies, so reduction of risk premium & rising share prices.
P2	Yes – our clients will welcome it. Help groups enforce common accounting standards internally / present results on a level playing field.	Yes – no doubts.
P3	Yes – comparability, but not personally affected.	Yes – improved comparability, but painful getting there.
P4	Yes –usual harmonisation arguments. Less convinced about European focus.	Yes – good for comparing investments.
R1	Yes – signal to the world, raise standards in Europe, meet needs of capital markets. Some Europeans want own standards to negotiate better with the US.	Yes – global standards (rather than European ones) will improve transparency. Some constituencies regret loss of control.
R2	Not for us to comment. Long term commitment to making progress on global standards.	Not for us to comment.
R3	Yes – should raise level of accounting / promote growth of European capital markets with London playing a key role. Also investor protection issue. Foreign registrants want to be confident that accounting in home country is of high standard.	Yes – comparability of information.
R4	Yes – facilitates cross border investment. Improved transparency throughout Europe.	Yes – develop cross border investment. Danger they may not be true global standards but European standards
R5	Yes – cut consolidation costs, compare investments & raise standards in Europe. The link between tax and accounting in many countries will prevent the full benefits being realized.	N/A
R6	N/A	Yes – little disagreement on principle, just detail.
R7	N/A	Yes- lower costs/ more informed capital markets.

Table 2

How familiar are you with IFRS? What is your view of the quality of the standards?

Inter-Viewee	Response interview 1	Response interview 2
C1	I probably know more than most. Still tendency for too many options, but less than previously. Improving- more robust and rigorous than they used to be. Haven't pinpointed all the differences yet. Derivatives treatment is over-complex.	Don't agree with fair value project. Business is driven by generating cash flow & fair value balance sheet won't help understand what true performance is. Cos are not challenging the IASB, just focusing on implementation. Lack of representation from preparers, while technical partners always turn up. IFRS is good enough to produce respectable accounts comparable with ASB's. Must capitalise development costs under IFRS – issue for us.
C2	I have experience of applying IFRS within group. IFRS is OK. Difficult to bring together different cultures. How it is supposed to be may be different from how it is.	I don't know a lot about IFRS. No worse than UK GAAP.
P1	Probably reducing quality of standards in UK, but I don't think quality of financial reporting will decline as most FDs realise good accounts helps you obtain money at a decent price. Don't think IFRS is currently more rule based than UK GAAP, but given US influence on IASB, we may end up with more rules. At least they have a standard on financial instruments, but it's crap. FRS 5 is a good standard but not exportable – it's on the very principles end of the rules v. principles spectrum.	Promote transparency – which is new in many European countries. IASB is too theoretical at times. Sometimes produces dumb answers to dumb questions due to rushed processes
P2	I don't really know too much. IAS seems to be trying to be all things to all men. Not yet aware of any problem standards under IFRS. Not convinced we're going to end up with anything better. Not sure of the role of the true and fair override under IFRS.	I now know more, but not as much as I'm going to need to know for 2005. On the whole IFRS is better than UK GAAP - more intellectually coherent at the cost of more rules and details. European failure to endorse IAS 32 & 39 might damage IASB, but it would do worse things to Europe resulting in Euro IFRS and no US recognition.
P3	Don't know very much about differences with UK GAAP. Thought recent UK standards were more in line with international thinking.	I probably know more than anyone else in the office, but not a huge amount. Don't really know about differences except deferred tax.
P4	Knew little about it & not competent to discuss.	British companies will not gain in the truth & fairness of balance sheets, although presentation will be same as its competitors. Off balance sheet finance may be an issue.
R1	I probably know more than anyone else you have interviewed. They are not as good as UK standards, but with some improvements they could be alright. Some IFRSs don't have the depth of guidance of later FRSs. Less good on business combinations and accounting for substance of transactions. IAS 39 is appalling. Insurance is a problem for everyone.	I know a little! On the whole reasonable standards – don't like progress on business combinations project (American solution). IAS 32 & 39 should be adopted asap. Would like to see substance over form built into the standards.
R2	Have the convergence handbook so I know as much as I would choose to know. IFRS – some standards need improvement. Where we end up may be very different from what we've got now.	There is enough difference in just two standards; we will focus on material accounting treatments and disclosure items.
R3	I've spent the last 4 years looking at them. It is easy to misunderstand IFRS if you read them from an old fashioned UK perspective, e.g. prudence is no longer a fundamental accounting concept. Good on revenue recognition – bad on accounting for substance of transactions. IAS 39 is incomprehensible.	Don't think we've moved to a better regulatory framework – less history. Don't like changes driven by US convergence. ED4 & draft insurance standard are awful. Questionable how well they can be applied by any but the largest companies. Concerned that they focus on technically pure answer ignoring cost implications.
R4	I know a little bit ! IFRS is very good and getting better. Principles have been refined, more prescriptive but with greater consistency. IFRS deals with unforeseen circumstances which produces complexity. Some standards need reduced options.	Will produce more volatility. Impairment will cause problems. Some people will not recognise impairment until it stares them in the face. There is going to be some 'cherry picking'.
R5	Not an expert. IFRS still needs improving / reducing options. Concern about treatment of off balance sheet finance, pensions and deferred tax. At least they've got something on financial instruments.	N/A
R6	N/A	US influence comes through in anti-avoidance philosophy – produces more detailed rules. IASB seem to be lifting some standards from US GAAP. Does not help their perception in Europe. Post 2005 there will be gains and losses, perhaps a slight improvement. Audit firms may clear up old messes. Financial instruments standard for the first time, also share options. Loss – FRS 5, SORPS
R7	N/A	No great knowledge.

Table 3

The introduction of IFRS will mean a loss of influence by UK regulators, preparers, auditors and users over the rules that govern financial reporting. Is this a worthwhile cost?

Inter-Viewee	Response interview 1	Response interview 2
C1	No views on sovereignty of accounting standards. It's a worthwhile cost. UK does not rule the world, we work in a global environment.	Still some influence via Tweedie. Annoyed about local standard setters defending own patch. Little influence on setting / directing agenda of IASB – fairly independent organisation.
C2	Don't see it as a problem. We can't maintain different standards for ourselves.	Not bothered about loss of influence. Just a variation on accounting principles – learn to live with.
P1	Tweedie keen to operate IASB as a partnership – need to relate to culture or you invent the Esperanto of the accounting world.	I think UK has high quality financial reporting and something would be lost as a consequence. They work for the UK market, not sure whether IFRS will work as well for the UK market. So we are losing influence and a degree of quality but I think the long term goal is worth pursuing.
P2	No concern. Important that annual reporting is easily comparable – better product if it is.	Companies don't care – just want one set of clear rules which apply internationally.
P3	Still some input. Price worth paying in the global economy.	Loss of influence is not an issue to clients or us.
P4	Inevitable but price worth paying.	No – small firms had no influence in the UK context.
R1	If we have the right views, those views should prevail. We shouldn't accept to lose too often. US is starting to question its own rules, we shouldn't just converge to US.	We're having to wait for other countries to catch up. Its important for everybody to feedback direct to IASB on consultation drafts, then will not lose. ASB should provoke debate. British need to be active in international forums. Now seeing a lingering attachment in Europe to control over standard setting.
R2	Yes but ASB is strong & influential and will punch above its weight'. Ultimately we will have more influence in a global environment.	I don't think so. We have our say.
R3	Rest of the world thinks we have too much influence over the IASB.	We've lost influence, but will gain globally applied accounting standards promoting easier movement of capital & greater influence for the EU. Don't think ASB is leading IASB projects anymore.
R4	Worth giving up. IAS will have greater confidence and understanding round the world than UK standards ever could.	Trend of alignment with IASB already existed in UK. Others resent the influence 'Anglos' have over their laws. EU is IASB's biggest customer but it negotiates its agenda with FASB .
R5	Accepted loss of influence, but still the endorsement mechanism.	N/A
R6	N/A	Many groups will feel they have little influence over the ASB now. ASB has special partnership arrangements, but now a bit part player, although still the most influential in Europe. It's the standards that count. A strong consultation process helps people accept the end result.
R7	N/A	Plusses exceed the minuses. Would be a loss if national standard setters disappeared. For the foreseeable future we will have to have national standards that reflect international ones. Need to keep expertise to develop good quality standards.

Table 4

What is the future form of financial reporting for those entities in the UK not covered by the Regulation? Future of UK GAAP and ASB?

Inter-Viewee	Response interview 1	Response interview 2
C1	Will use IFRS for subsidiaries if permitted. Lots of detailed adjustments is inefficient & errors are more likely.	No role for ASB- just interpreting IAS and making changes for unlisted. No long term future.
C2	Smaller cos need simplified accounts – whatever needed by IR. Many users don't seem to understand accounts – prefer discussion.	Not aware of arrangements for unlisted cos. ASB needed to influence IASB.
P1	DTI should allow anyone who wants to, to adopt IFRS – which should become norm for all cos. Need to consult on SMEs. No advice to clients until DTI pronounces. Danger ASB becomes less effective because preparers are less willing to be involved if somebody else makes decisions.	We don't want 3 sets of standards. By 2010 UK standards will have become IFRS, except small GAAP. The divide is not listed v. non listed. ASB – transitional role only.
P2	There is a case for moving to IFRS even among unlisted cos. Few businesses are solely UK concerns, but maybe costs exceed benefits.	Less & less people will know UK GAAP as time passes. No role for ASB once new regime established. We're advising clients on a case by case basis.
P3	Need to ensure no barriers to listing. Accounts should be based on same principles regardless of size. Current FRSSSE doesn't save work, just press a different button on computer. Harmonisation is fairly irrelevant to our clients.	UK GAAP must have limited lifespan. Clients will look to us for guidance, probably stick with UK GAAP. Helpful if we could simplify matters – clients like to disclose minimum, so FRSSSE helps.
P4	Unlisted need a longer period of transition, even if UK GAAP converges with IFRS. Not keen on extending scope of FRSSSE. Even now our checklists and disclosures for small cos are based on full GAAP rather than FRSSSE as it minimises firms' exposure to risk.	International standards now to be trickled down to local accounting standards but medium sized cos now very few in number. No proposals for international FRSSSE yet. No need for ASB if not issuing standards. Will use UK FRSSSE for most clients- advise them to sit tight.
R1	No need for harmonisation of small companies, but in UK accustomed to one model of financial reporting. Also don't want barriers between listed & unlisted companies. Subsidiaries of international companies will want IAS for cost benefit reasons. Existence of UK GAAP provides a let out – a very occasional override. Without ASB, UK would have less influence globally or within Europe. Favour expanding use of FRSSSE – same principles, fewer disclosures.	We don't want 2 sets of standards by 2010. UK GAAP will fade away as a result of convergence. Perhaps higher threshold for an international FRSSSE, ASB needs to provoke debate, also special position with IASB reflects the importance of our capital markets.
R2	Not sure how having 2 systems will further the quality of financial reporting. Hopefully by 2005 little difference between standards. Need for urgent decision on unlisted	Have to live with 2 sets of standards in the short term .
R3	I don't think unlisted will change unless they have time on their hands. Would like an international FRSSSE for SMEs..	Beyond requirements of EU Regulation, happy to leave it to the market. Still issue of SMEs – the usual argument is to reduce disclosure, but maintain measurement principles which are getting more complex. Cos will move over if there is a tax advantage. Doubt that the cost of maintaining UK GAAP will be worthwhile, but we'll still need a strong UK think tank underpinning our approach to IFRS, probably institutes.
R4	Difficult – IASB talking about a FRSSSE, but not on the immediate agenda. Can't see the grounds for having multiple standards in different countries. Small companies become large ones.	SMEs are a very different project but I would still like something similar to IFRS.
R5	We don't know what to do about unlisted so we are consulting. Everything will converge anyway, with ASB re-badging IASB standards. Unresolved issues like international FRSSSE, relationship of SORPS to IFRS. We're pushing for an international FRSSSE.	N/A
R6	N/A	Don't see UK standards for smaller cos disappearing soon, but unattractive to run parallel regimes for ever. Very keen for IASB to develop a standard for SMEs, but some opposition. Would cut disclosure primarily, but may not save much time/ money.
R7	N/A	As UK standards converge with IFRS, UK GAAP irrelevant. Need to sort out small co acs. Plans exist for international FRSSSE.

Table 5

To what extent is it likely that there will be consistent application of IFRS across the EU from 2005?

Inter-Viewee	Response interview 1	Response interview 2
C1	Many countries in EU ignore rules set in Brussels while we apply them creating a competitive disadvantage.	At present sets of IAS accounts produced in different countries in Europe are completely different. That will change.
C2	Standard setters are remote from practice. From my experience- - our auditors changed subsidiary accounts prepared in IAS approved by another auditor from the same firm in another country – different interpretation of IAS. Some are political and the truth is hidden on purpose with auditors' knowledge.	Will not be applied consistently. We just accepted audited accounts from other countries.
P1	Firms can have a major role. We are developing structures to harmonise our global structures. Most member states will be singing from same hymn sheet by 2010. Probably by 2007 in the UK, France and Germany but it will be a continuing process. We realise the benefit in looking in the same direction.	Will be differences in interpretation of IFRS relating to past experience & practice in each country. After a few years it will become apparent that some countries do some things differently – it will come into line. May need some interpretation from IFRIC. The learning process may adversely affect confidence e.g. from analysts. National regulators may have to get used to being told they are wrong by IFRIC. The practicalities will mean local decisions must be made.
P2	Not concerned for subsidiaries of major listed companies with group prescribed policies, culture ,procedures and methods. Bigger risk in nationally based companies.	Depends on education and training. We have a co-ordinated approach via global firm committee.
P3	Bound to be transitional problems – different approaches to disclosure. Confusion. Whole industry of finding ways around some of the issues.	Not sure. We'll do our best to comply. Germans are more used to applying rules and are probably ahead of us. Never heard of IFRIC but would appear to have an important role in making accounts comparable.
P4	Would depend on quality of enforcement.	As for any major change different interpretations due to doubt / dislike results. Will take time to correct. IFRIC will be swamped. May not be too much of a problem if UK France and Germany get up to speed relatively soon given they account for most listed companies.
R1	Concern that if there is an area where IAS is less clear than UK GAAP the loophole will be exploited. Will then need to plug the loophole. Need to educate the firms	Probably not a common interpretation in 2005, but we'll have a go. Audit firms have a huge responsibility to minimize those differences – but real challenge. Hopefully enough interchange with others around the world to ensure euro-IFRS does not develop. Also SEC enforcement for foreign registrants likely to impact on IFRS.
R2	Danger companies would register in countries where they can interpret IFRS in the way they want.	Some countries, particularly those not used to principle based standards looking for further guidance beyond the standards and IFRIC interpretations. IFRIC would not be able to deal with all of them – will tell them to look at the principles for the answer. Some securities regulators fancy having a go at interpretation.
R3	Need a mechanism where we sit down and decide how to interpret the standard and gain convergence.	Very difficult to achieve as many in Europe not accustomed to principle based standards, but rules. They will want to turn standards into rules, but standards allow some flexibility. Europeans will expect a lot from IFRIC. IFRS never used on this scale before.
R4	IFRIC should prevent widespread differences. Need to avoid Euro – interpretations.	Many areas open to different interpretations. In some countries (e.g. France) it is possible to get pre-clearance from a stock exchange regulator – involves interpretation. Committee of European Securities Regulators recognises issues to be dealt with.
R5	True and fair requirement in IAS 1 will apply to all countries – may not interpret the same way. Concern that implementation guidance could result in Euro – IFRS. Big firms role important.	N/A
R6	N/A	Unrealistic/ overoptimistic to think it is going to be the same. 25 jurisdictions & 25 starting points. Work going on to ensure that states do not institutionalise any differences. Global firms have big role to play in creating centres of excellence. Keen to protect brand & liability position.
R7	N/A	Eventually.