This paper investigates international differences in the way in which countries and companies have responded to IFRS. At the country level, some (for example, Cyprus) have adopted IFRS for all financial reporting, some have made a special national version for all reporting (for example, Australia), some have required IFRS for consolidated reporting by listed companies and allowed it for other reporting (for example, the UK), some have required it for certain purposes but not allowed it for others (for example, France), while some have not yet allowed it for any purpose (for example, the US, except for foreign companies). Where domestic accounting survives for at least one purpose, some countries are converging domestic accounting with IFRS (for example, the UK and the US), while others have made few such changes (for example, Germany and Italy in 2007). Several countries have converged national accounting with IFRS, but only for some reporting entities (for example, China for listed companies). At the company level, there are many differences of practice within IFRS, and specific national versions of IFRS practice are emerging.

As a result of all this, global comparability (especially for listed companies) has been improved by the arrival of IFRS, but there is still a long way to go. This paper uses the technique of classification of accounting systems to investigate the different national approaches to IFRS, and the reasons for them. The topic is relevant for companies, auditors and investors who operate internationally. It also comprises an extension and updating of the academic literature on classification.

Accounting classifications are the focus of some of the earliest writings on international accounting (for example, Hatfield 1911, published 1966; Seidler 1967; Mueller 1967, 1968; Buckley and Buckley 1974; AAA 1977; da Costa et al. 1978; Frank 1979). Classification was also, and still is, a natural introductory topic in textbooks on international accounting (for example, Choi and Mueller 1992: chapter 2; Roberts, Weetman and Gordon 2005: chapter 6; Walton, Haller and Raffournier 2003: chapter 1; Choi and Meek 2005: chapter 2; Radebaugh, Gray and Black 2006: chapter 2; Nobes and Parker 2008: chapter 3).

Classification, if done well, can help to organise a mass of data. It can sharpen description and analysis, The degree to which, and the purposes for which, International Financial Reporting Standards (IFRS) have been adopted vary internationally. This paper uses classification techniques in order to investigate the reaction of countries, or companies within them, to IFRS. In addition, this paper investigates five aspects of this; for example, whether European countries mandate IFRS for unconsolidated financial reports. Previous classifications in accounting are used to help to predict and explain this.
and reveal underlying structures. Sometimes it might explain, or enable prediction of, behaviour because members of a class can be expected to behave more similarly to each other than to members of other classes.

However, as explained later, criticisms have been made of the data used for classifications, of the results obtained, of the notion of ‘Anglo-Saxon accounting’, and of ‘the very idea of classification’ (Roberts 1995). Furthermore, most listed companies are now using either IFRS or the generally accepted accounting principles of the United States (US GAAP), or rules based closely on them, at least for their consolidated statements. So, what is there to classify? In 2007, the Securities and Exchange Commission (SEC) announced the acceptance of IFRS for its foreign registrants, and began consultation on allowing IFRS for US companies (for example, SEC 2007). So the day when there may be one system rather than two for listed companies can now be foreseen more clearly. In this present or that future world, how can classification still be useful? This paper addresses that question.

**Literature**

Lack of clarity in what is being classified (see explanation in Roberts 1995) will reduce the quality of a classification. It is proposed here that, ideally, the objects to be classified in international accounting are financial reporting practices. An ‘accounting system’ is a set of reporting practices. If a set of reporting rules is detailed and well enforced on a particular category of companies, then they will exhibit a particular system. An example is that US-listed companies use US GAAP.

Several researchers have examined variables that might affect financial reporting practices (Seidler 1967; Mueller 1967, 1968; Buckley and Buckley 1974: 139–40; AAA 1977; Puxty et al. 1987; Gray 1988; Doupnik and Salter 1995; Nobes 1998a). These variables are at one or two removes from accounting practices.

Other researchers have, at first sight, made classifications based on financial reporting itself. However, those that use Price Waterhouse data (for example, da Costa et al. 1978; Frank 1979; Nair and Frank 1980) suffer from two problems: (a) the data mix practices and rules; and (b) the data contain errors (Nobes 1981). Classifications based on KPMG data (d’Arcy 2001) also have problems: (a) the data concern rules only; and (b) even the careful interpretation of the data generates errors (Nobes 2004). Nobes (1983) uses mostly (but not entirely) impressions of reporting practices, and Doupnik and Salter (1993) use reporting practices.

A two-group classification comprising ‘Anglo-Saxon’ and other has been a feature of some of the literature (for example, Nobes 1983 and 1998a), although a concentration on the differences between the UK and the US is clear in Hatfield (1911), da Costa et al. (1978) and Frank (1979). Cairns (1997), Alexander and Archer (2000), and d’Arcy (2001) specifically question the two-group classification. Feige (1997) criticises some aspects of the labelling of the two groups, but not really the existence or contents of the groups. Nobes (1981; 1998b; 2003; 2004) suggests that criticisms of the two-group classifications are based on the use of incorrect data, or concentration on a few very large companies that are not following the normal rules for their country, or concentration on peripheral non-reporting features.

If a two-group classification can be justified, it might prove a valuable descriptor, explainer and predictor. Despite all the criticism, the two-group classification is, in practice, frequently adopted in the literature (for example, Guenther and Young 2000; Hung 2000; Ali and Hwang 2000; Benston et al. 2006: chapter 9; Ball et al. 2000; La Porta et al. 1997, 1998; Choi and Meek 2005: 56–9; Radebaugh et al. 2006: 55, 62; Walton et al. 2003: 6, 8). This paper will specify a two-group classification including a large number of countries, and then see if it can be used for explanation and prediction.

**A Detailed Two-group Classification**

I classify the member states of the European Union (EU) in 2006 plus two substantial countries outside the EU: Norway and Switzerland, which both have close ties with the EU. This 27-nation bloc is clearly defined economically and geographically, and there is useful accounting data on it, as will be seen below.

I will use my own previous writings to prepare the classification, so that readers can confirm that the classification has not been contrived ex post in order to prove the hypotheses raised. I apologise to readers for the amount of self-citation that this will imply.

The Nobes (1983) classification contains only nine of the above 27 European countries (see the Appendix), partly because another eight of the countries had communist regimes at the time and therefore no ‘financial reporting’, and partly because some of the other countries are very small. However, Nobes (1992a: 127–9) includes 14 of the countries (see Appendix). Using the same techniques and some more recent writings, the Appendix classifies the remaining 13 countries. The result is shown as Table 1, with IFRS added, in accordance with Nobes (1998a). It is intended that the objects being classified in Table 1 are not countries but accounting systems (that is, the set of financial reporting practices) as under national laws and standards. It is admitted that, in several cases, the previous writings used proxies to assess accounting practices.
How Accounting Classification Might Still Be Useful

This section explains five ways in which classification might still be helpful in the IFRS era. First, the degree to which national regulators allow or require IFRS for various purposes differs. This can be presented as a classification; one that could have been predicted by previous classifications. Second, in many countries that have adopted IFRS for consolidated reporting by listed companies, the great bulk of accounting nevertheless continues under national rules. These national systems continue to differ and can be classified as before. Third, the degree to which those individual national systems are converging with IFRS differs, in a way that classification can predict. Fourth, whether foreign countries’ accounting systems are acceptable on particular exchanges, because they are IFRS or converging to IFRS, can be explained by classification. Last, different national versions of IFRS practice are emerging, and these can perhaps be classified.

These proposed ways in which classification might still be useful are now examined.

National reactions to IFRS

In some jurisdictions (for example, Australia), IFRS or a version of it is required for all corporate financial reporting: consolidated and unconsolidated, for listed companies and unlisted. By contrast, in other jurisdictions where IFRS is required for the consolidated reporting of listed companies, unconsolidated reporting is still allowed to use national rules (for example, in Denmark, the Netherlands or the UK) or is required to do so (for example, in Belgium, France and Spain).

Let us take the example of the 27 countries included in Table 1. For these, Table 2 shows whether or not companies are required to continue to use national accounting rules for unconsolidated accounting. Finland and Greece are excluded because different companies are treated differently: large companies with certain types of auditors are not required to use national rules, although the bulk of companies are.

The simple classification of Table 2 illustrates the ‘sharpens description’ use of a classification. It tells a story simply and clearly. However, as usual, the truth is more complicated than can easily be captured in a classification, as the footnotes to Table 2 explain. For example, some larger German companies are allowed to publish IFRS unconsolidated statements, but only if they also prepare statements under national rules for the purposes of the calculation of taxable and distributable profits (Haller and Eierle 2004).

Would previous accounting classifications have enabled a prediction of Table 2, and do they help to explain it? A prediction from the literature would be that countries in the right-hand column of Table 1 would not allow IFRS for unconsolidated accounting, as now explained. First, the use of IFRS would change profit figures, so in countries where tax and accounting are closely linked, the rules for the calculation of taxable income would in effect be put in the hands of the IASB, which is specifically uninterested in tax (IASB Framework, para. 6). This would obviously be
politically and economically unacceptable. In principle, tax and financial reporting could be de-coupled in such countries, but that would be a major philosophical and practical problem. The same reasoning applies to the calculation of prudently distributable income, which again rests directly on accounting numbers in, for example, Germany but is de-coupled in various ways in the UK.1 So, Germany could not easily allow the use of IFRS for the calculation of distributable income. Another issue is that, in some right-hand column countries, some of the requirements of IFRS are seen as unsatisfactory for legal reasons related to unconsolidated reporting. For example, in France, the capitalisation of finance leases as required by IFRS is regarded as showing fictitious assets on an entity’s balance sheet, thus misleading creditors (for example, Standish 2000: 200).

Would the classification of Table 1 have successfully predicted Table 2? The relevant hypothesis can be stated as:

\[ H_1 \] A country with a national accounting system on the right in Table 1 will not allow IFRS for unconsolidated accounting (that is, the country will also be on the right in Table 2).

The null hypothesis is:

\[ H_{01} \] The classification of countries in Table 2 is only associated by chance with the classification in Table 1.

A chi-square test enables one to reject the null hypothesis at more than 99% significance. So, \( H_1 \) can be accepted. Indeed, the only countries that are not correctly classified by using Table 1 are Estonia, Italy and Luxembourg. Estonia has presumably taken the view that it wishes to move as fast as possible from its communist past to modern, international practice. Luxembourg has a long history of extending to companies any choices that are available within EU rules (Clark 1994: 107). One explanation for Italy granting permission to use IFRS is that Italy also likes to be seen as modern and international, and that in practice companies will not volunteer to use IFRS for their unconsolidated statements because they would then have to produce a different set for tax purposes. Nevertheless, in principle, tax and financial reporting can now be separate in Italy, which is a major change to law.2

The analysis of this section can be extended to other countries. For example, because Australia, New Zealand and South Africa would be on the left of Table 1 (for example, see Nobes 1992a: 127), they would be on the left of Table 2. In China, by contrast, which would have been put on the right of Table 1 (see Nobes 1998a), IFRS was only used in 2006 in the consolidated statements of some listed companies.3

Continuing national rules

The previous sub-section explains that, in many countries, IFRS is not allowed for unconsolidated accounting. Consequently, in Europe, IFRS is concentrated on the consolidated statements of listed companies. There are about 8000 listed companies among the millions of companies in Europe. Therefore, the great bulk of accounting in Europe and in other continents (for example, South America) continues under national accounting systems.

For multinational groups, for international audit firms and for tax authorities dealing with such entities, an appropriate classification of the accounting systems can remain a preliminary part of understanding the international differences. For example, Table 1 coupled with a list of typical accounting features to be found in the two groups (for example, Nobes 1998a: 168) would be a start for understanding European accounting differences.

Different degrees of convergence with IFRS

Given that national accounting systems have survived in many jurisdictions, at least for some purposes, a further issue is their convergence with IFRS. This process is the main explanation of change in accounting rules since 2000. The word ‘convergence’ is accurate when applied to the joint program of the IASB and the US’s Financial Accounting Standards Board (FASB) because both have changed particular standards towards each other’s4 and have run many joint projects (for example, on performance reporting, deferred tax and revenue recognition). However, in the case of other countries, ‘convergence with IFRS’ is a euphemism for piecemeal adoption of IFRS.

The degree to which a jurisdiction’s national accounting system is being changed towards IFRS varies. For example, in the UK, eight recent accounting standards (FRSs 20 to 26 and 29) were copies of international standards. By contrast, German rules related to unconsolidated statements (the Handelsgesetzbuch) had not changed at all by 2007.5

A hypothesis for explaining this difference between countries is similar to the first hypothesis, relating to national reactions to IFRS. That is, some aspects of IFRS can be regarded as imprudent for the calculation of distributable income and for the protection of creditors. Other aspects can be regarded as unsuitable for a tax base; for example, greater use of fair values or of estimations (such as IAS 11’s percentage-of-completion method for contract accounting). Therefore, it is proposed that:

\[ H_2 \] A country with a national accounting system on the right of Table 1 will be slower (than those on the left) to converge with IFRS.
It is more difficult, than for H1, to measure this with precision. However, examples are easy to find, as in the convergence comparison of Germany and the UK above. Other systems on the left (for example, Cyprus, Malta and Australia) have been abandoned or converged out of existence. By contrast, there is no detectable movement in Belgium. This time, even Italy fits the hypothesis. It is on the right of Table 1, and its national system for unconsolidated statements has changed little since 2000.6 It seems likely that the hypothesis could be confirmed by further research.

Acceptable accounting by foreign issuers

At the time of writing, the SEC directly accepted only US GAAP reporting from its registrants, requiring any other reporting to be reconciled to US GAAP. However, again at the time of writing, EU exchanges accept reporting in a number of GAAPs, under certain conditions related to their convergence with IFRS (CESR 2007). From 2009, it is proposed that only IFRS or accounting ‘equivalent to IFRS’ will be accepted.

The Committee of European Securities Regulators (CESR) has analysed whether the GAAPs used by over 90% of the issuers on European exchanges satisfy the pre-2009 conditions for acceptance by those exchanges. Table 3 summarises its conclusions, which are a combination of two issues: (a) the non-EU countries that are home jurisdictions for EU listers, and (b) whether the GAAP of those countries is converged or converging with IFRS or similar. Could the content of Table 3 have been predicted and can it be explained? The hypothesis would be that foreign-listed companies tend to come from ‘strong equity’ countries (in terms of Table 1), and that such countries would have accounting similar to IFRS or have adopted IFRS. So:

Table 3  Home jurisdictions of EU foreign issuers

<table>
<thead>
<tr>
<th>Issuers from these countries should be able to include in the notes to the financial statements a statement of compliance with IFRS, as these countries have adopted IFRS.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Australia</td>
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<tr>
<td>• Hong Kong</td>
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<tr>
<td>• New Zealand</td>
</tr>
<tr>
<td>• South Africa</td>
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<tr>
<td>• Singapore</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>These countries do not have ‘national GAAP’ as such and their issuers apparently apply US GAAP, IFRS or Canadian GAAP.</th>
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<tbody>
<tr>
<td>• Cayman Islands</td>
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<td>• Bermuda</td>
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<tr>
<td>• Netherlands</td>
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<tr>
<td>• Antilles</td>
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<td>• Isle of Man</td>
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<tr>
<td>• Jersey</td>
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<tr>
<td>• Guernsey</td>
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<tr>
<td>• British Virgin Islands</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The countries on the right could qualify … as CESR found that there is a public statement of a convergence programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Taiwan</td>
</tr>
<tr>
<td>• China</td>
</tr>
<tr>
<td>• Brazil</td>
</tr>
</tbody>
</table>

H3 Foreign countries whose companies list on EU exchanges and whose GAAP is, according to CESR, acceptably close to IFRS are Class A countries.

Inspection of Table 3 reveals that of the 12 jurisdictions in its top two categories of clear acceptance, 11 are present or former dependencies of the UK and one of the Netherlands. According to Nobes (1998a), all these countries would therefore be classified on the left of Table 1. We do not in this case need statistics to accept Hypothesis H3, as there are no exceptions.

Different national versions of IFRS practice

Nobes (2006) set out the theory for the motives and opportunity for the emergence of different national versions of IFRS practice. It was suggested that variables such as financing systems, legal systems and tax systems that have been connected in the literature to the existence of international differences in accounting might still provide some motivation for different IFRS practice.

Opportunities for different IFRS practice come from, inter alia, the many overt options, covert options and measurement estimates in IFRS. It was suggested, for example, that Australian groups would not use proportional consolidation for joint ventures (because AASB 131 did not allow it), but that French groups might do so because of previous national practice; that UK companies are more likely than German companies to take actuarial gains and losses to ‘other comprehensive income’; and that UK banks are less likely to use macro hedge accounting than French banks. If research now underway confirms, for example, that there is a typical set of UK IFRS practices that is different from a typical set of German IFRS practices, then it might be useful to classify such systems. This would be for the normal purpose of organising data and sharpening description.

Conclusions

Some countries have entirely abandoned national accounting rules in favour of IFRS; some others have almost done so by turning a version of IFRS into national standards. Other countries use IFRS for some purposes, either compulsorily or voluntarily. Where national accounting systems survive, some are converging with IFRS and some are not. Even where IFRS is used, different companies can still retain different practices. The differences are associated with previous national accounting traditions and the previous reasons for international differences.

This paper uses classification to illustrate how countries fall into groups with respect to the above issues. This should help practitioners who operate at
the international level to make sense of the variety of national responses to IFRS. It reminds accountants and analysts that full international comparability has not yet been achieved, and it provides a technique for assessing where convergence has happened and where it has not.

Classifications have been a staple of the international accounting literature for nearly a century, and particularly for the last 40 years. If done well, they can be useful in organising data, which helps to sharpen description, and they can assist in predictions. Doing them well requires, inter alia, using correct data and being clear about what is being classified.

It has been suggested here that, even in the IFRS era, classifications can still be useful. First, previous classifications could have predicted and can explain national reactions to IFRS. This paper statistically proves a hypothesis that a requirement to continue using national rules for unconsolidated accounting is associated, in Europe, with a group of countries previously classified as ‘weak equity, government-driven, tax-dominated’.

Second, previous classifications of national accounting systems are still relevant because national accounting continues in many countries even if IFRS is required for the consolidated statements of listed companies.

Third, some evidence is provided for the hypothesis that ‘weak equity’ countries are slower to converge their national systems with IFRS. More work is needed here.

Fourth, it would have been possible to predict, and to explain, which non-EU countries are the home to companies that list on EU exchanges and have accounting systems acceptable to the regulators of those exchanges. It has been shown that a hypothesis can be accepted that these are the ‘strong equity, commercially driven’ countries in previous classifications.

Finally, for further research, different national ‘systems’ of IFRS practice are emerging and will be classifiable.

Looking ahead, we can expect further progress in the area where comparability really matters: consolidated financial reporting by those listed companies reporting to users in more than one country. There are several reasons for this. First, much of the variety in national responses to IFRS relates to unconsolidated statements, for reasons connected to company law and tax law. This variety is likely to continue but need not hamper progress on the main issue of comparability of consolidated reporting. Second, the trend of convergence that began decades ago is likely to continue. Third, the IASB is committed to removing options and the scope for different interpretations within IFRS. Nevertheless, some of the variety investigated in this paper is likely to remain for many years, because of its deep-seated causes.

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Notes

1 For example, extra depreciation caused by revaluing assets is not deemed to affect distributable income. This and many other issues are, in effect, controlled by the accountancy bodies (for example, ICAEW 2004).
2 Legislative Decree of 28 February 2005, no. 38.
3 For 2007, new standards (ASBEs), based closely on IFRS, are in force for Chinese-listed companies, and available for others.
4 Convergence is the main explanation for the issuance of IFRS 5, IFRS 8 and IAS 23 (as revised in 2007); and of SFAs 150, 153, 154, 159.
5 Confirmation by Cornelia Flury of the Institut der Wirtschaftspr¨ufer, 26.6.2007.
6 Confirmation by Johannes Guigard, PricewaterhouseCoopers, Milan, 26.6.2007.

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CESR 2007, ‘CESR work to date in relation to the European Commission’s measures on the use of third countries’ GAAP in the EU,’ ref. 07-022b, Committee of European Securities Regulators, Paris, April.


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**Appendix: Table 1 Explanation**

Nobes (1983) classifies 14 countries, including nine European ones. These are shown with single asterisks in Table A1. Nobes (1992a: 127–9) contains these nine plus a further five countries shown with two asterisks in Table A1. The remaining 13 countries in the table are classified as follows. Slovenia and the three small Baltic states were not included in the above literature, but are classified like the other former communist states of the EU. Cyprus and Malta were again too small to be included. They are former British colonies and therefore classified on the left in accordance with Nobes (1998a). Austria, Denmark, Finland, Greece, Luxembourg, Norway and Portugal are classified using various of the author’s publications that comment on them (Nobes 1992b: 3; Nobes 1992c: 3; Nobes 1992d: 2–3; Nobes and Parker 2004: 317; Nobes and Schwencke 2006).

**Table A1 A two-group accounting classification**

<table>
<thead>
<tr>
<th>Class A (strong equity, commercially driven)</th>
<th>Class B (weak equity, government driven, tax-dominated)</th>
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<tr>
<td>Ireland*</td>
<td>Belgium*</td>
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<td>Netherlands*</td>
<td>France*</td>
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<td>UK*</td>
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<td>Norway</td>
<td>Czech Republic**</td>
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<td>Slovakia</td>
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** = added in Nobes (1992a).