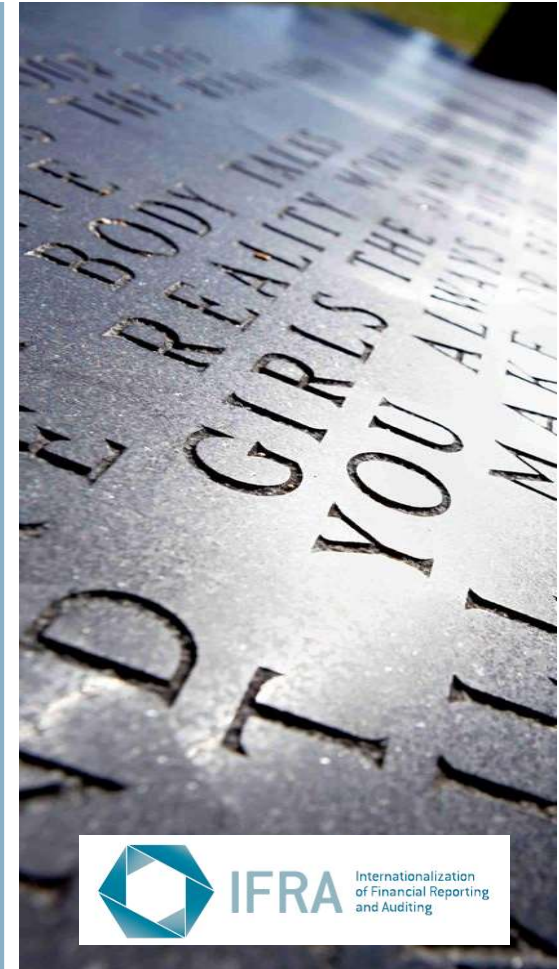


Standardization and comparability: A regulatory waltz

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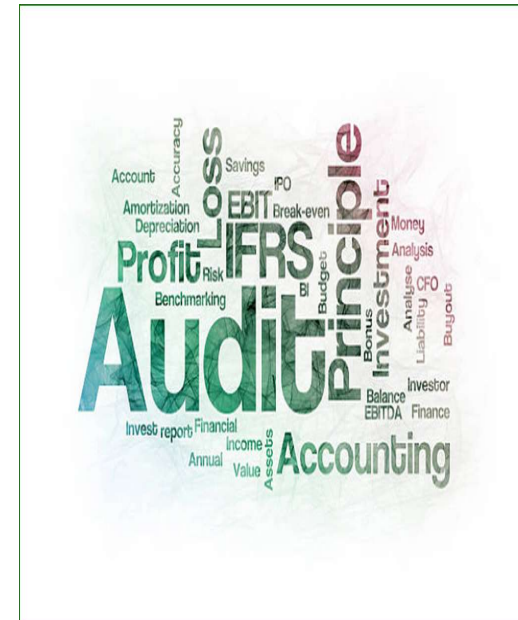
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The waltz

- Financial reporting
 - Norway
- Standardization
- Comparability
- Method & data
- Findings
- Conclusions





Relevance

- In the EU there are around 23 million SMEs.**
- Financial reporting requirements for SMEs vary
- IASB's Comprehensive Review of the IFRS for SMEs Standard
 - considering *simplified IFRS vs independent standard*
 - comparability is an important consideration
- Paper examines *standardization* and *comparability* in multi-standard setting
 - In Norway IFRS for SMEs was considered but not adopted



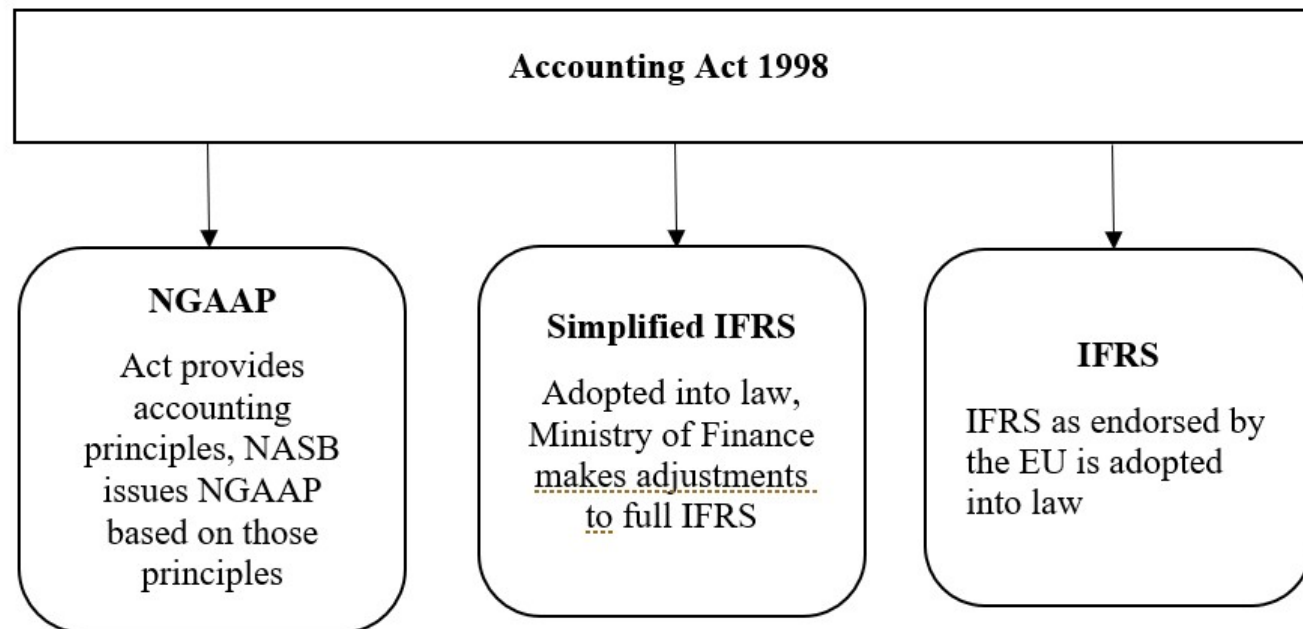


EU Financial Reporting

- Since 2005 companies listed in European markets required to use IFRS as adopted by the European Union in their consolidated financial statements
- Directive 2013/34/EU
 - Effective beginning 1 January 2016
 - Focuses on SMEs & simplification of requirements
 - Aims to improve *international comparability*
 - Member state options



Financial Reporting in Norway





NGAAP

- NASB developed NGAAP within requirements specified by the Accounting Act
- No legal remit or public funding
- NGAAP rooted in the income statement view of financial reporting. Fair value valuation for fixed and intangible assets is not permitted.
- Can be used by private companies and by listed companies for parent statements



IFRS

- IFRS has a formal legal status not afforded to NGAAP
- IFRS have a balance sheet and valuation focus
- Listed companies are required to utilize IFRS in their consolidated statements, all Norwegian companies are permitted to use IFRS



Simplified IFRS

- The same legal status as the full IFRS
- Refers to the full IFRS for recognition and measurement and to the Accounting Act for presentation and disclosures
- Updates have been done by the government only in 2008, 2014 and 2018
- Can be used by all private companies and by listed companies for parent statements



Multi-mode Standardization Model

	Committee-based	Market-based	Government-based
Main actors driving the process	Predominately private	Predominately private	Predominately public
Development and coordination	Standards are developed in committees and diffused if members agree on a common solution.	Solutions intended as a standard can be developed by anyone. Coordination through competition between solutions in the market, leading often (but not always) to one de-facto standard.	Solutions intended as a standard can come from various sources. Coordination through governments using their hierarchical position to impose these standards on others.
Conditions for cooperation	Willingness to cooperate and sufficient expertise to contribute in committees. Convincing others to participate.	Standard users must be willing to adopt solutions given risk of incurring switching costs.	Governments can become active out of their own volition or if convinced by private actors.

Based on Wiegmann et al. (2017) and includes categories relevant for the study.





Comparability

- Comparability - “the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items.” (IFRS Foundation, 2018)
- As Zeff (2007) noted,
 - There are those who believe ... that comparability is promoted, or assured, by all companies being required to use the same accounting methods, that is to say, **‘standardisation’ or ‘uniformity’ of method**. On the other hand, there are those who argue that there must be some **options available to take into consideration differences in ‘circumstances’** among companies or among countries (pp. 293-294).



Method & data

- Adoption of IFRS for listed companies contributed to decline in comparability between listed and private firms
- During 2014-2015, two different committees in Norway proposed using the IFRS for SMEs as the basis for a national standard.
- Examine standardization process, including the interplay of transnational and local standards, the role of comparability in the process, and the ensuing dynamics between actors.



Method & data

- Period 2013-2018
- Data: Documentary materials, comment letters to 3 proposals, interviews
- Participants
 - Government (EU & National); Committees (NASB, AAC, IASB); Market
- Types of comparability: international, national, within entity (horizontal & vertical)



Government - EU Directive

- Main goal of the directive is simplification and greater internationalization
- Cross border international comparability - “need for comparability of financial information throughout the Union”
- Consistency in presentation and accounting policy as means to achieve cross border international comparability



Government - National

- Gatekeeper in the standardization process
- Accounting Act “the annual financial statements shall be prepared on the basis of uniform principles that are applied consistently over time”
- Predefined format for financial statements
- Emphasis on uniformity of method



Committees - IASB

- IFRS & IFRS for SMEs – comparability as enhancing vs fundamental characteristic
- To compare trends over time and different entities -consistency of measurement within entity, over time, and across entities
- Revisions of IFRS not incorporated into IFRS for SMEs timely



Committees - NASB

- Lost remit over listed companies in 2005
- In 2010 asked the Ministry of Finance to evaluate the feasibility of applying the IFRS for SMEs in Norway
- In 2014 proposed a new standard for private entities based on the IFRS for SMEs but within the requirements of the Accounting Act to replace the existing NGAAP
 - Comparability focus similar to IFRS for SMEs & highlighted the importance of international comparability



Committees - AAC

- In 2015 AAC was to undertake the revision of the legal framework guiding financial reporting
 - Evaluate whether Accounting Act should be revised to include more from the international accounting standards
 - Related to comparability, the AAC was to examine how to balance the capital market's demands for comparable information with cost-effective options for SMEs and, if relevant, investigate how these issues are addressed in countries similar to Norway

Committees - AAC

- AAC argued - “internationally comparable accounts are of great importance for all companies that are exposed to international competition or interact with foreign companies”.
- Proposed
 - Remove existing principles to allow harmonization with IFRS for SMEs
 - Reduce number of standards available, simplified IFRS only for subsidiaries of companies using the full IFRS for consolidation
 - Would give a standard setter opportunities to make exemptions



Market Players

	Individual/ Users	Audit firms	Professional associations	Unions	Preparers	Not-for-profits	Academic institutions	Government agencies	Total
NASB	2	6	8	3	1	48	3	3	74
	3%	8%	11%	4%	1%	65%	4%	4%	
AAC's NOU1	1	5	13	7	5	0	3	6	40
	3%	13%	33%	18%	13%	0%	8%	15%	
AAC's NOU2	2	5	8	5	7	5	1	11	44
	5%	11%	18%	11%	16%	11%	2%	25%	



Market Players – NASB proposal

- Proposal was undermined by forthcoming AAC proposal
- Not-for-profits do not support following IFRS for SMEs approach to pension liability
- Concerned with consistency in the treatment of their segment and comparability between Norwegian not-for-profits.

Market Players – AAC proposal

- Preparers and professional associations
 - Some support IFRS-based framework as basis for all reporting as simplification
 - Others questioned why need IFRS for SMEs as planning to add modifications so international comparability will not improve
 - Preference for the existing approaches related to hedging, valuation, dividends, cooperatives

Market Players – AAC proposal

- Auditors
 - General support for international harmonization
 - No support for the proposal to limit the use of the simplified IFRS
 - KPMG highlighted the issue we refer to as *within entity vertical comparability* where the use of different standards by the parent and in consolidation undermines comparability between parts of the organization
 - E&Y was the only firm strongly opposing, “we are not aware that key groups of accounting users have expressed the need to replace the current accounting rules with an IFRS-based accounting language”. International comparability would not improve.



Standardization Impasse

- The goals of simplification and related differentiation versus comparability and consistency of accounting policies seen as conflicting
- Government has not made progress on the standards since 2017
- In 2018, the NASB announced that it would stop the work on its proposed standard based on the IFRS for SMEs and would no longer maintain and revise the existing NGAAP.



Conclusions - Standardization

- Multi-level governance with increased vertical interdependence between actors at different territorial levels
- AAC took on broader mandate than given
- Tensions in the current structure:
 - inconsistent legal status for the available sets of standards
 - lack of a formal remit to set standards and the lack of public funding for the national standard setter
 - extent to which the accounting policies were specified in the law or should be elaborated by the standard setter

Conclusions - Comparability

- While the committees argued that the move to the IFRS for SMEs was a response to demands in the market for internationally comparable information, the market actors were not convinced that the benefits justified the costs.
- Market focus on national and industry comparability not international
- Emphasis on uniformity may obscure differences of entities

