INTERNATIONAL FINANCIAL REPORTING STANDARDS IMPLEMENTATION IN THE UNITED KINGDOM, ITALY, AND IRELAND: THE ROLE OF DIFFERENTIAL COUNTRY ATTRIBUTES

by

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ABSTRACT

International Financial Reporting Standards are designed to create a common global language for business transactions so businesses can compare financial information more easily. This study examines three countries, the United Kingdom, Italy, and Ireland, and examines how country-level attributes in each of these countries affected the implementation of IFRS. The study develops three propositions related to IFRS standards 2, 3, and 39 and examines prior research to draw conclusions regarding the propositions.

TABLE OF CONTENTS

INTRODUCTION

The widespread adoption of International Financial Reporting Standards (IFRS) has helped facilitate the harmonization of accounting standards around the world. During the 1990s, IFRS became a central issue for many European countries as the number of European businesses listed on foreign stock exchanges increased. A situation existed where different European Union (EU) member countries began using a combination of United States Generally Accepted Accounting Principles (GAAP) and their own national GAAP. This ultimately led to varied accounting standards in EU member nations, which put pressure on the European Parliament to standardize European accounting regulations.

In July 2002, the European Parliament adopted accounting Regulation No. 1606/22. This required all publicly traded EU member country companies to comply with IFRS by January 1, 2005. This requirement affected over 7,000 companies and brought about a drastic shift in European financial reporting due to the variety of financial reporting standards previously being practiced. The overarching goal of adopting IFRS was to contribute to the cost-effective and efficient functioning of the European market as well as to ensure that European businesses could continue to compete within the world's capital markets.

As a result of Regulation No. 1606/22, publicly traded companies in the EU were required to issue their financial statements in accordance with IFRS beginning in 2005. The objective of this study is to examine three EU countries - specifically the UK, Italy, and Ireland - that differ in political environment, regulatory environment, and stock market development. I will determine how the differences in these three country-level factors affected the implementation of IFRS. I will examine prior research to test my propositions related to how country-specific attributes affected the implementation of three different IFRS accounting standards.

REVIEW OF LITERATURE

The literature review will document the history of the International Accounting Standards Board (IASB) and provide insight on why the EU decided to implement IFRS. Next, it will look at the costs and benefits associated with adopting IFRS, followed by clear definitions and overviews of the specific IFRS accounting standards examined in this study. The literature review concludes with propositions regarding how country-specific attributes in the UK, Italy, and Ireland affected IFRS implementation.

IASB Development and IFRS Adoption

Prior to the International Accounting Standards Committee (IASC) and IASB development, different accounting systems were being fostered and developed around the world. Each country developed its own standards tailored to its own business environment, legal system, cultural norms, and socioeconomic factors (Street and Shaughnessy 180). While economies and commerce grew around the world, accounting systems evolved internally, which required that financial statements be reconciled if they were to be understood in different capital markets. Ultimately, this was the central driving force that led to the development of the IASC in 1973.

From 1973 until 2001, the IASC served as the independent accounting standard setting body. They issued International Account Standards (IASs) that had to be agreed upon amongst 10 IASC member countries (Australia, Canada, France, Germany, Ireland, Japan, Mexico Netherlands, the UK, and the US). Even though some countries were attempting to harmonize accounting standards around the world, other influential countries continued to practice their own national GAAP or undertake their own accounting standardization initiatives (Zeff, 2012).

On April 1st, 2001, IASC was replaced with the IASB. Like the IASC, the IASB was an independent accounting standard setting body comprised of 15 members who were responsible for developing and publishing IFRS. The IASB decided to adopt the accounting standards previously set by its IASC predecessor, which ultimately resulted in a combined 2,300 pages of regulatory text and another 2,000 pages of disclosure requirements (Hibbard, 2012).

As previously mentioned, the European Parliament required all EU publicly traded companies to comply with IFRS by January 1st, 2005. Although the ultimate goal of this resolution was capital market integration, the prospects of adopting IFRS resulted in a substantial shift in financial accounting for most European countries.

One of Europe's biggest concerns was uniformity of reporting standards across EU member countries. A study conducted by KPMG examined 22 different countries while analyzing 26 IFRS options and determined that the options chosen for IFRS were influenced by the country's previous national GAAP. This was one of the many conclusions drawn from this study, but it is consistent with the notion that country differences and variation in interpretations of the new IFRS standards across countries can sometimes result in significant differences just within the EU (KPMG, 2007). The potential variation in the implementation and enforcement of IFRS across the EU ultimately negates many of the benefits of IFRS adoption (Armstrong, 2010). Today, countries within the EU continue to have conflicting rules about specific standards set forth by IFRS and how they should be applied to a company's financial statements.

Costs and Benefits of IFRS Adoption

Even though IFRS was originally designed to create a common global language for business transactions, it has resulted in conflicting outcomes for many countries that have made the decision to adopt IFRS. Accounting research has shown a variety of benefits to businesses around the world such as greater access to capital markets, improved information environments, and increased market liquidity (Horton, 2013). Other proponents of IFRS argue that IFRS is less costly for stakeholders to become familiar with because they have the ability to compare all companies on one set of standardized financial statements (Ramanna 2012). Ultimately, IFRS provides stakeholders increased transparency, improved credibility, and better economic prospects, ultimately resulting in improved decision-making (Armstrong, 2010).

Even with these benefits, IFRS research demonstrates that there can also be drawbacks to IFRS implementation. Each country that implements IFRS faces different challenges that vary depending on its political environment, regulatory environment, and stock market development (Horton, 2013). One of the biggest issues with IFRS adoption is accounting professionals being forced to change their way of thinking. They have to put aside the GAAP standards they have used in the past and learn and implement new accounting standards. As a result, professionals in countries adopting IFRS are required to undertake extensive education, training, and certifications in order to continue practicing accounting in their countries. In addition to accountants re-learning their jobs, implementing IFRS also requires extensive training for a company’s management and staff (Hibbard 8-9).

United Kingdom, Italy, and Ireland Backgrounds

As previously stated, the UK, Italy, and Ireland are all member nations of the EU that were required to implement IFRS by January 1, 2005. I selected these three countries for my study because they were of interest to me and I was able to obtain information about their political environment, regulatory environment, and stock market development in English. Table 1 shows similarities and differences that exist in the reporting environments of companies operating in the UK, Italy, and Ireland. These variations can potentially explain how IFRS was applied differently across three different jurisdictions.

Table 1

UK, Italy, and Ireland Country Level Attributes			
Attribute	**UK**	**Italy**	**Ireland**
Regulatory Environment	- Company Law - Accounting standards - Stock exchange requirements	- Company Law - Accounting Standards - Stock exchange requirements	- Company law - Accounting standards - Stock exchange requirements
Political Environment	- Common Law	- Civil Law	- Common Law
Main users of annual reports	- Investors	- Creditors	- Investors
Basis of accounting	- Accruals concept dominates	- Prudence concept dominance	- Accruals concept dominates
Stock Market Development	- Large open economy - Well developed capital market	- Large economy - Small stock exchange	- Small open economy - Small but well-developed stock exchange

Recreated chart adapted from Fifield, Finningham, Fox, Power, & Veneziani, 2008 shown above

As shown in Table 1, a key difference in the UK, Italy, and Ireland relates to their political environment. The UK and Ireland have legal systems based on Anglo-Saxon common law, while Italy practices Roman civil law. Under Italy's civil law, accounting standards are strict, heavily regulated, and incorporated directly into national laws (Emanuele, 2003). Conversely, the UK and Ireland both have legal systems based on common law, where statute law continues to exist. Under such systems, laws develop on a case-by-case basis, are less detailed, and allow for the use of judgment (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

A second key difference evident in Table 1 is how ownership and governance vary across these three countries. In the UK and Ireland, financial reporting is directed at the investor class. Thus, in order to achieve market efficiency in these countries, it is important that transparency exists and that the necessary information be provided to stockholders. Conversely, family-owned companies are more prevalent in Italy, whereas publicly traded companies are more common in the UK and Ireland. Ultimately, this results in financial reporting in Italy being directed at creditors, unlike the UK's and Ireland's stockholder-centric approach (Aubert, 2011).

Another difference in Table 1 relates to how accounting concepts are applied in these three countries: the UK and Ireland both practice the accruals concept while Italy practices prudence. While the accruals and prudence accounting concepts are not mutually exclusive, accrual accounting is one of the underlying concepts of IFRS while prudence is not. Often times, accrual accounting refers to accrued expenses and accrued revenues whereby revenue and expenses can be recognized before cash is received or paid. It's an accounting method that measures the position of a business by recognizing events before the cash transaction occurs and allows the current cash flows to be combined with the expected future cash flows to give a more accurate picture of a company's financial position. Conversely, the prudence accounting concept practiced in

Italy ensures that accountants exercise caution when adopting accounting policies. Accountants ensure assets and income are not overstated and that liabilities and expenses are not understated. Ultimately, prudence takes a more conservative approach when measuring and recognizing accounting items (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

The final major difference in the UK, Italy, and Ireland relates to how their economies are structured. The UK is larger than Italy and Ireland and has a well-established capital market. Even though Italy is also a large country relative to many other EU member countries, it has a much smaller stock exchange. Like the UK, Ireland also has an open economy with a developed stock market, but on a much smaller scale (Aubert, 2011).

Propositions

This section will develop propositions related to how differential country-level attributes affect each company's experience in implementing IFRS – specifically, IFRS 2, IFRS 3, and IAS 39. This paper focuses on these three standards because of their significance to European countries and because they were the three standards about which I had the greatest knowledge. In terms of attributes, I will examine each country's prior national GAAP and each country's political environment, regulatory environment, and stock market development prior to the new IFRS reporting standards being implemented.

IFRS 2 is the first standard examined in this analysis and pertains to share based payments. Prior to IFRS implementation in 2005, share based payments in Ireland and Italy were attractive to businesses because this was a type of employee compensation that did not have to be reported in the financial statements, whereas the UK national GAAP required companies to report such payments. The implementation of IFRS 2 requires companies not already doing so, specifically companies in Italy and Ireland, to disclose the fair value of share-based payments they distribute each year on the income statement and the coinciding vesting conditions in the notes section of the financial statements. This could ultimately have a negative effect on a company's income statement. While the UK was already disclosing share-based payments in their financial reports, the implementation of IFRS 2 could pose challenges to both Italy and Ireland. As previously mentioned, Ireland has a political environment that is similar to the UK's and has a more developed stock market than Italy. In addition, IFRS parallels the UK's and Ireland's equity finance reporting standards and places an importance on ensuring that enough transparency exists to meet the needs of stockholders. While Irish reporting is also directed at stockholders, similar to the UK, Italian reporting is directed at creditors. Ireland and Italy will both need to seek expertise from outside sources on how to correctly evaluate and report share-based payments and share options. Since Ireland's market development, legal system, and national GAAP are more similar to the UK's, where share based payments are already disclosed, seeking outside help on reporting share-based payments might be easier for Ireland than Italy because Ireland would need to seek less help with incorporating IFRS 2. Conversely, Italy's accounting standards differ the most among these three countries and Italy is the only country among the three that did not practice equity based reporting standards prior to the implementation of IFRS. Although IFRS 2 might seem great in theory to Italian accountants, questions will arise about how to properly apply this standard, ultimately making it more difficult to implement. Therefore, my first proposition states:

> *Proposition 1: Implementation of IFRS 2 will be easiest for the United Kingdom to implement, only moderately difficult for Ireland, and most difficult for Italy.*

IFRS 3 deals with business combinations and is the second IFRS standard that I predict will present challenges to the UK, Italy, and Ireland. Even though this standard deals primarily with business combinations, it also affects goodwill. IFRS 3 defines goodwill as the future economic benefit arising from an asset that cannot be individually identified or separately recognized, ultimately confirming the overall value of a business as the sum of net assets. IFRS 3 clarifies criteria for recognizing goodwill and prohibits amortization of goodwill, whereas most national GAAPS allowed goodwill to be amortized over a specific period of time. In addition, there are two IFRS standards, IFRS 2 and IAS 38, which both pertain to goodwill and are reported in different sections of the financial statements.

Knowing that investors are the primary users of financial statements in the UK and Ireland, I believe that changing the way net income and goodwill are reported on the financial statements could affect investment decisions in both countries. The UK and Ireland have more sophisticated stock markets relative to Italy and they will see a change in how businesses' income and assets would be reported under IFRS. While this is not a change in cash flows for either of these countries, IFRS 3 and IAS 38 will make businesses recognize the goodwill and intangibles that used to be recognized together recognized separately, which will affect different areas of the financial statements. As mentioned above, in the UK and Ireland IFRS 3 will significantly alter reporting standards for business combinations and goodwill calculations. There are enough differences with this standard that stakeholders will have to gain a deeper understanding of how to recognize the differences in how the reported financial metrics are calculated in order to know how to incorporate financial statements produced under IFRS into their investment valuation approaches.

This standard will also pose challenges for Italy because Italy's prior reporting standards required less disclosure than that required by IFRS. While Italy will be complying with the same IFRS standards that the UK and Ireland must comply with, Italy will not experience the same type of challenges the UK and Ireland will be enduring, outside of understanding how to apply the IFRS 3 itself. While Italian companies will already be utilizing outside IFRS experts on how to interpret and apply the accounting standards, Italy's stock market is not as developed, relative to the UK and Ireland, and does not have stockholders in the international market using their financial statements in the same manner as the UK and Ireland. Therefore my second proposition is:

> *Proposition 2: Compared to Italy, the UK and Ireland will experience more challenges with the implementation of IFRS 3 due to the sophistication of their stock markets and their investor-centric financial reporting approaches.*

IAS 39 covers the recognition of financial instruments by outlining the requirements for the measurement of financial assets, liabilities and contracts. In addition, this standard also includes special rules for reporting derivatives and hedging. Prior to 2005, Italy was the only one of the three countries that did not require companies to report this information in their financial statements. Until the implementation of IFRS, derivatives and hedging were seen as off balance sheet transactions, and Italy's accounting environment had little use for these financial metrics due to the country's less developed market. Even though hedging and derivatives can be difficult to calculate for first time adopters, doing so will enable Italian companies to better communicate their financial health of stakeholders and make Italian financial information more readily available to interested third parties. Conversely, both the UK and Ireland include derivative and hedging calculations in their annual reports. Since not all EU countries reported derivative and hedging information prior to the implementation of IAS 39, this made it difficult for UK and Irish investors to use these calculations in their valuation approaches.

As previously mentioned, the UK and Ireland both included derivative and hedging information to stockholders prior to the implementation of IFRS, while Italy had little use for derivatives and hedges and never performed these calculations prior to the implementation of IFRS. As a result, my third proposition is:

Proposition 3: Italy will face the greatest challenges when implementing IAS 39 because of its less developed market, relative to the UK and Ireland, and its prior GAAP not requiring derivative and hedging disclosures before IFRS implementation.

DISCUSSION AND ANALYSIS

Research has shown that the IFRS implementation processes in the UK, Italy, and Ireland have been relatively similar (Armstrong, 2010). In general, preparation for the implementation process for audit firms began about five years prior to 2005, whereas companies only began preparing for IFRS implementation two to three years prior to 2005 (Hibbard, 2010). It was important for auditors and companies to begin the implementation process early in order to comply with the IFRS reconciliation statements. The only major difference in the UK, Italy, and Ireland's IFRS implementation processes is Italy's relying more heavily on the IFRS technical offices in London, due to a steeper learning curve for Italian companies relative to those in the UK and Ireland (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

The differences in the UK, Italy, and Ireland's political environments, regulatory environments, and stock market development each played a key role in IFRS implementation. In this section, I will analyze and synthesize additional literature in order to gain a deeper understanding and draw conclusions on how differences within the UK, Italy, and Ireland affected the implementation of IFRS standards IFRS 2, IFRS 3, and IAS 39.

IFRS 2: Share Based Payments

"IFRS 2: Share Based Payments" requires entities to recognize share-based payment transactions (share options, share appreciation rights or granted shares) on their financial statements. IFRS 2 defines share-based payment transactions as either equity-settled or cash-settled. Equity-settled payment transactions are when an entity receives goods or services as consideration for equity instruments of the entity, including share and share options. Cash-settled payment transactions are when the entity receives goods or services by incurring a liability to the supplier that is based on the value of the entity's shares (Deloitte, 2013).

Despite the differences in the UK's and Ireland's size and population, both countries have similar legal systems and their markets are more developed. Research demonstrates that prior to the implementation of IFRS 2, companies in the UK and Ireland tended to use profit related bonuses and share option arrangements as part of their employee compensation. Both countries' prior national GAAP required this amount to be expensed in a profit/loss account over the related performance period (Deloitte, 2013). While IFRS 2 uses an approach similar to how the UK and Ireland reported share based payment prior to the implementation of this standard, it uses a different calculation for determining the amount expensed. As EY notes, "Where a transition from UK and Irish GAAP affects key financial measures, these remuneration arrangements will need to be assessed to understand the potential impact and employee expectations will need to be managed in advance" (EY, 2013). This quote is consistent with my other research and sheds light on how companies in the UK and Ireland managed the implications of this standard by planning ahead for IFRS implementation and gaining an understanding of how their financial statements could possibly be impacted. Accounting professionals in both of these countries began preparing for IFRS implementation five years prior to its actual implementation date, whereas business executives began preparing for IFRS three years prior to implementation. Due to the UK and Ireland's prior accounting standards being more closely aligned to IFRS 2 prior to implementation, the UK and Ireland should not be drastically impacted by this standard (Fifield, Finningham, Fox, Power, & Veneziani, 2008). Even though the calculation for the amount of share based payment to report and expense is changing for companies in the UK and Ireland and that net income and equity figures might be affected, preparers and users of these financial statements can easily gain information about the differences in the IFRS calculation and continue to easily access this financial statement metric for business valuation purposes.

Conversely, research demonstrates that IFRS 2 will have a greater impact on Italian companies. Due to Italian reporting standards focusing on the needs of creditors, Italian companies' financial statements lacked the transparency of the financial statements of companies in the UK and Ireland where the needs of stockholders are paramount and also lacked the transparency that IFRS reporting standards entailed. As previously mentioned, prior to the mandatory implementation of IFRS, Italian companies did not report any share-based payments on their income statements nor did they provide any other accounting entry. Ultimately, Italian GAAP ignored the existence of any share-based payments, making it advantageous for Italian companies to use stock based payments as a type of compensation for employees' capital (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

The implementation of IFRS 2 required Italian companies to determine the value of share based payments on the grant date and apportion the cost over the years leading to the vesting date and expense this amount on the income statement. The expense reported on the income statement would then be offset by a corresponding increase in net capital (Corbella, 2013). Italy has many companies not reporting share-based payments. Moreover, Italy has a very small number of publicly traded companies, and many companies continue to be family owned and operated. These facts shed light on how Italy had little interaction with outside markets prior to the implementation of IFRS. Each of these factors contribute to the idea that creditors were the primary users of Italian financial statements and demonstrate why it might be difficult for stakeholders in other countries to make smart investment decisions based upon the information provided by the Italian financial statements. This also shows how Italian companies must undertake significant changes in their financial disclosures to remain in compliance with IFRS. Ultimately, IFRS will shift Italian financial statements from being focused primarily at creditors to being focused on meeting the needs of the stockholders. This will enable stockholders in other countries to efficiently use Italian financial statements for investment purposes.

My analysis suggests that upon the implementation of IFRS 2, Italian companies struggled with calculating the amount of share-based payments to expense because they lacked expertise in share based valuations. As a result, Italian companies sought expertise from outside sources on how to calculate, then report this metric and gain an understanding of how it affects their financial statements (Corbella, 2013). This is consistent with my original proposition that stated that the implementation of IFRS 2 would be easier for Irish companies and more difficult for Italian companies to comply with. This can be attributed to a variety of factors, such as Italy's prior accounting standards differing the most from IFRS relative to the UK's and Ireland's, and Ireland's equity-driven approach to financial reporting being more consistent with IFRS than Italy's creditor-driven approach to financial reporting. Additionally, using share based payments as a form of compensation is "equity driven." Notably, whereas both the UK's and Ireland's prior GAAP took an equity approach, similar to the IFRS reporting approach, Italy's prior GAAP was directed at creditors.

IFRS 3: Business Combinations

"*IFRS 3: Business Combinations"* clarifies the accounting when an acquirer obtains control of a business, such as in mergers or acquisitions. Different than most prior GAAPs that allowed businesses to choose between the acquisition method and the cost method for business combinations, this standard requires all companies to practice the acquisition method when reporting business combinations. The acquisition method requires assets acquired and liabilities undertaken to be measured at their fair values on the acquisition date, and that goodwill be correctly measured and disclosed (Deloitte, 2013). While this standard is wide-ranging, the main changes between countries' prior GAAP reporting standards and IFRS 3 pertain to 1) only allowing the acquisition method for business combinations, 2) the separate recognition of intangible assets from goodwill, and 3) recognizing negative goodwill on the income statement in the profit/loss accounting. Much of the difficulty with the implementation of this standard pertained to goodwill (KPMG, 2007).

IFRS and the UK's and Ireland's prior accounting standards required business combinations to be accounted for by the acquisition method (Cordazzo, 2007). This can be attributed to the idea that IFRS and both the UK and Irish laws are based upon Common Law principles, where reporting standards are directed at meeting the needs of stockholders. This differed from Italy, where reporting standards were directed at meeting the needs of the creditors and companies were allowed to account for business combinations using either the cost method of the acquisition method. Conversely, IFRS requires businesses to expense acquisition costs, while prior UK and Ireland reporting standards allowed companies to capitalize acquisition costs. While IFRS 3 does not parallel the UK's and Ireland's prior accounting standards completely, research shows that IFRS 3 could affect UK and Ireland companies' income (KPMG, 2007). My research shows that companies' experiences with IFRS 3 in the UK and Ireland resulted in the reporting of higher profit figures than would have been reported under national GAAP for UK and Irish companies. The higher profit figure reported can be attributed to the prohibition of goodwill amortization that was allowed in both the UK and Irish GAAP prior to the implementation of IFRS in 2005 (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

Prior to IFRS implementation, the UK, Italy, and Ireland GAAP addressed goodwill in one accounting standard. However, the implementation of IFRS addressed goodwill in two separate standards, specifically IFRS 2 and IAS 38. IFRS ensures that intangible assets are recognized separately from goodwill, ultimately resulting in a smaller goodwill that can only be written off if it is impaired and a larger intangible asset amount that is reported separately from goodwill (Deloitte, 2013) Even with the similarities between the UK and Irish GAAP and IFRS being focused on providing maximum disclosure to stockholders, slight changes in IFRS 3 shed light on how the UK and Ireland will both be impacted upon the implementation of IFRS 3.

While the UK and Ireland are both home to large companies and relatively developed stock markets, and both countries compete on the global level, Italy is home to many smaller businesses with only a small number of listed companies. As with the UK and Ireland, research shows that IFRS 3 will also impact Italy, but for different reasons (Fifield, Finningham, Fox, Power, & Veneziani, 2008). Because Italy's financial statements are directed at creditors, many people do not understand or make use of the

Italian financial statements. Many of the smaller Italian companies have never kept detailed accounting records and have seen no reason to if creditors are the only users of their financial records. As a result of Italy's Civil Law, many of the laws have specific requirements and have not been updated recently. The implementation of IFRS 3 ultimately made creditors and businesses keep more detailed accounting information and increased overall transparency for Italian companies (Cordazzo, 2007).

My second proposition was that the UK and Ireland would experience the most challenges with the implementation of IFRS 3 because of their developed stock markets. However, my research on IFRS 3 indicates that the UK, Italy, and Ireland all experienced challenges when implementing this standard. While the UK and Ireland experienced challenges with how they calculated goodwill and recognized goodwill separately from intangibles, Italy experienced challenges with learning how to apply this standard and learning to disclose merger and acquisition transactions, resulting in transparent financial statements in compliance with IFRS.

IAS 39 Financial Instruments: Recognition and Measurement

"*IAS 39: Financial Instruments: Recognition and Measurement*" explains the requirements for the recognition and measurement of assets, liabilities, and contracts to buy or sell non-financial items. First, financial instruments are recognized, and then classified into various categories depending on the type of instrument. This was the first time that derivative and hedging metrics were required to be reported on the balance sheet (Deloitte, 2013).

One major issues pertaining to IAS 39 was that the standard had not been fully agreed upon and finalized at the time IFRS was being implemented in Europe. In

Finningham's article, he quotes an Italian accounting professional, "Undoubtedly IAS 39 was the most problematic due to the delay by the EU in permitting a definitive application of this standard" (Fifield, Finningham, Fox, Power, & Veneziani, 2008). In order to comply with IFRS, Italian businesses and banks had to learn how to disclose more accounting information than they had in the past, and Italian companies had to implement computer systems to calculate the complex derivative and hedging calculations. Italian companies had to relearn their business with the new computer systems and were responsible for ensuring they were reporting accurate financial information that could be compared to other companies across the EU. As a result of Italy's prior accounting standards and the factors referenced above, Italy was impacted most significantly with the implementation of IAS 39 (Cordazzo, 2007).

While IAS 39 most significantly impacted Italy, the UK saw little or no effect with the implementation of this standard. Prior to IFRS implementation, both the UK and Ireland reported hedging and derivative metrics in the notes to their financial statements, even though only certain UK investors generally used the numbers. Research shows that this was one of the more difficult IFRS standards for accountants in many countries to understand, whereas accountants in the UK were very comfortable with reporting these numbers (Aubert, 20011). Between the uncertainty associated with this standard not being fully agreed upon prior to the implementation of IFRS in the EU and that fact that many countries, such as Italy, were making very big changes to their country's accounting environment, the UK ended up training many accounting professionals throughout the EU. Relative to Italy and Ireland, the UK was able to easily implement this standard because of its exposure to the global market prior to IFRS implementation and because IFRS approaches to reporting were similar to the UK's prior national GAAP. It was easier for the UK to implement IAS 39, relative to Ireland and Italy, because of its presence in the global market and the development of its stock exchange prior to IFRS implementation. While the UK and Ireland were both calculating derivative and hedging metrics prior to 2005, Ireland experienced a few more problems when implementing IAS 39 because its stock market was less developed than the UK's (Fifield, Finningham, Fox, Power, & Veneziani, 2008).

As previously mentioned, Irish companies also reported hedging and derivative metrics in the notes to their financial statements prior to IFRS implementation. Even though companies in Ireland and the UK both reported these numbers, the numbers were less significant in Ireland (Aubert, 2011). An Irish Big 4 auditor states in an interview that, "I think IFRS is a high bar and I don't think the marketplace was ready for how high the bar was" (Fifield, Finningham, Fox, Power, & Veneziani, 2008). Even though the UK and Ireland both experienced limited changes relative to their national GAAP, this can be attributed to Ireland's smaller size relative to the UK and to the fact that investors in Ireland relied on other financial metrics to evaluate companies (Delvaille, 2005). My findings about the implementation of IAS 39 agree with my initial prediction that Italian companies will have the greatest difficulty with IAS 39 implementation.

IMPLICATIONS

With companies around the world expanding into global markets, the need for transparency in all companies' financial statements is becoming increasingly important. Currently, there is still no official set of reporting standards that is required for all international public companies, making it difficult to compare financial information across international borders. The lack of uniformity in financial statements could potentially create a lack of confidence among investors, who ultimately might not participate in the stock market.

The passing of Regulation No. 1606/22 by the European Parliament in 2002 was a major event and affected over 7,000 businesses across the EU. Although this study focuses on just three countries' experiences with IFRS in the EU, the issue of creating one set of standardized financial statements continues to be a topic of discussion (Horton, 2013). Research shows that switching to IFRS increases international trade, helps integrate capital markets, and ultimately lowers the cost of capital. Conversely, costs of switching to IFRS include the time and money spent on training and ensuring that everyone interprets the IFRS standard in the same manner that it is applied (Armstrong, 2010). While there are many costs and benefits to implementing IFRS, one of the biggest debates with this topic still lies with the adoption process.

Each country that adopts IFRS is allowed to eliminate and change IFRS standards that do not fit the "business environment" of that country. As a result, creating modified versions of IFRS in different countries ultimately degrades the intended convergence and comparability benefits of IFRS (Horton, 2013).

While my paper looks specifically at Europe's experience with implementing IFRS, the United States has still not passed any laws pertaining to IFRS implementation. It is implied that if all businesses around the world practiced the same set of reporting standards and produced the same type of financial statements that the global market would operate most efficiently. While global comparability is one of the most important benefits of IFRS adoption, it is still an issue that the United States is fighting when comparing financial statements across borders. If the United States ever moved forward with IFRS implementation, it would be easier for investors to participate in the United States market and make it easier for companies in the United States to conduct business internationally. The United States' decision regarding IFRS adoption for publicly traded companies continues to be heavily debated.

CONCLUSION

In this thesis, I examined how differences in the UK, Italy, and Ireland's political environment, regulatory environment, and stock market development effected how IFRS standards 2, 3, and 39 were implemented into these countries.

I developed three propositions and examined prior research in order to gain a deeper understanding of how country-specific attributes in the UK, Italy, and Ireland affected the implementation of IFRS, specifically standards 2, 3, and 39. While my propositions were largely based upon my prior IFRS reading and knowledge, the research from which my conclusions are derived provides valuable insights into some of the challenges faced by these countries upon the implementation of IFRS. As predicted, the UK and Ireland faced fewer challenges than Italy upon the implementation of IFRS. One of the surprising things I found in this study was that implementing IFRS does not guarantee comparability, because the same standards can be interpreted differently across different firms and different countries.

Implementing IFRS in Europe is going to take time and will present different challenges across industries and countries. The benefits of all European companies all producing the same standardized financial statements will be highly beneficial and enable stakeholders around the world to easily participate in the European market. Not only will this increase comparability across companies, it will also allow for seamless business transactions across EU country borders and increase market transparency for companies that did not fully report detailed financial statements prior to the mandatory implementation of IFRS in the EU. In summary, this paper provides an overview on the IASB and IFRS development, summarizes the costs and benefits of IFRS adoption, and provides insights into why experiences with IFRS adoption vary across adopters in the UK, Italy, and Ireland as a result of underlying differences across countries.

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