

# AVRUPA BİRLİĞİ VE İTALYA'DA FİNANSAL RAPORLAMA UYGULAMALARI

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Serkan TERZİ\*

## ÖZET

*Avrupa Birliği (AB), yönergeler vasıtasıyla Uluslararası Muhasebe ve Finansal Raporlama Standartları (UMS/UFRS) ile uyumlaştırmayı başarmış, bunu özellikle dördüncü ve yedinci Avrupa Komisyonu (EC) yönergelerinin uygulanmasıyla gerçekleştirmiştir. Dördüncü ve Yedinci yönergeler, AB içinde muhasebenin uluslararası boyutlara taşınması ve uyumlaştırmasında kullanılan en önemli araçlardır.*

*Avrupa Birliği, borsada işlem gören şirketler için Uluslararası Muhasebe Standartları Kurulu'nun Uluslararası Finansal Raporlama Standartları (UFRS) ve Uluslararası Muhasebe Standartlarından (UMS) uygulanabilir olanlarını onaylayıp yürürlüğe sokmaktadır.*

*Bu çalışmanın amacı ise, UMS/UFRS'lerin Avrupa Birliği'nde ve İtalya'da uygulanma sürecini incelemek ve finansal raporlamaya etkisini genel olarak göstermektir.*

**Anahtar Kelimeler:** *Finansal Raporlama, Avrupa Birliği, Uluslararası Muhasebe Standartları*

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# APPLICATIONS OF FINANCIAL REPORTING IN THE EUROPEAN UNION AND ITALY

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## **ABSTRACT**

*The European Union (EU) achieves the objectives of harmonization of International Accounting and Financial Reporting Standards (IAS/IFRS) through the Directives, mainly the Fourth and the Seventh of the European Commission (EC) Directives. The Fourth and the Seventh Directives are the most important instruments which are used to promote accounting internationalization and harmonization within the EU.*

*The EU is the largest jurisdiction body and approves and puts into effect only applicable financial reporting rules for listed companies under the IASB's International Financial Reporting Standards and International Accounting Standards.*

*The purpose of this study is to examine implementation process and show general effect of financial reporting of the IAS/IFRS's in the European Union and Italy.*

**Keywords:** *Financial Reporting, European Union, International Accounting Standards*

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## 1. Introduction

Achieving consistency and comparison in financial reporting worldwide is to be made of financial information emanating from different countries using accounting standards that, until recently, were vastly different from each other. Therefore, there has arisen the urgent need for promulgation of a common set of global accounting standards or in other words, global convergence into a common language of accounting for the financial world. International Financial Reporting Standards (IFRS), the standards promulgated by the International Accounting Standard Board (IASB), previously known as International Accounting Standards (IAS) that were issued by the International Accounting Standard Committee, the IASB's predecessor body, appear to be emerging as the global accounting standards. (Mirza, Holt and Orrell 2006: 1)

The IASB standards rapidly have being adopted in large number of countries all around the world. For instance, most countries in Europe, including all of the Member States of the European Union (EU), will require listed companies to prepare their consolidated financial statements in accordance with IFRS instead of local requirements, and many countries in Africa, Asia, Australia, and the Americas are adopting IFRS as their national accounting standards. (Mirza, Holt and Orrell 2006: 1)

The structure of this paper is as follows. Section I examines the practices of financial reporting in the EU. Section II presents the practices of financial reporting in Italy. Conclusion presented in the last section.

## 2. Financial Reporting in the European Union

The harmonization movement received a significant boost when the European Union (EU) adopted a regulation requiring public companies to convert to IFRSs. The EU now accounts for more than a third of the countries that prescribe application of IASB standards. (*Brackney and Witmer 2005: para.1*)

### 2.1. The EU Background

The EU traces its roots to the European Coal and Steel Community, formed in 1951. The six member countries signed the Treaty of Rome in 1957 to form the European Economic Community (EEC), and extended their cooperation to other sectors of their economies. The EEC expanded to 9 members in 1973, to 10 members in 1981, and to 12 members in 1986. In 1995, the EEC members signed the Maastricht Treaty to establish the EU, and increased its size to 15 countries. In May 2004, the EU expanded to 25 countries. (*Brackney and Witmer 2005: para.5*) Now, there are 27 member states in the EU.

The key governing bodies in the EU include the European Parliament, the Council of the European Union, and the European Commission. The European Parliament and the EU Council together are responsible for the legislative aspects of EU government. The Economic and Financial Affairs Council (ECOFIN) deals with economic and financial matters, including accounting issues. The European Commission (EC) conducts the executive aspects of EU government. The EC is the

body most involved with developing accounting requirements in the EU. (*Brackney and Witmer 2005: para.6*)

## 2.2. Accounting Directives

The EU achieves its harmonization objectives through Accounting Directives, mainly the Fourth and the Seventh of the EC Directives, which must be incorporated into the laws of Member States. (Bebbington and Song 2008: 8).

Following table provides a summary of company law Directives relevant to accounting and financial reporting adopted by, successively, the EEC, EC and EU.

**Table 1:** EU Company Law Directives

Directives	Date	Adopted Areas Covered
First	1968	Company registries; powers of companies and their directors
Second	1976	Distinction between public & private companies; calculation of distributable profit
Third	1978	Company mergers
Fourth	1978	Accounting formats, rules and disclosures for limited liability companies.
Sixth	1982	Company demergers
Seventh	1983	Rules for consolidated accounts
Eighth	1984	Qualifications of, and rules for the appointment and dismissal of auditors.
Eleventh	1989	Disclosures about branches of non-EU companies
Thirteenth	1989	Takeovers

Source:[http://ec.europa.eu/internal\\_market/company/official/index\\_en.htm#directives](http://ec.europa.eu/internal_market/company/official/index_en.htm#directives)

(Accessed on December 09, 2010)

As a result of the directives' permissiveness and the varying financial reporting environments within the EU, the Member States' financial reporting standards and practices are very diverse. In countries with a stronger equity culture (e.g., Ireland and the United Kingdom), financial reporting has tended to be more important and more transparent. In contrast, financial reporting has tended to be less

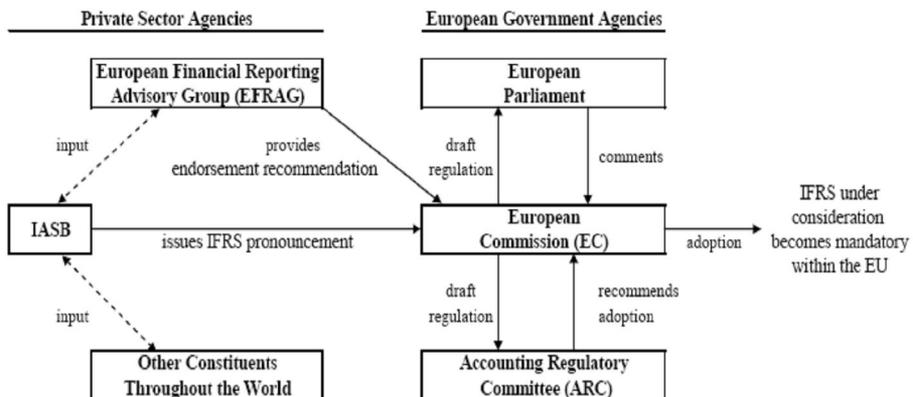
important and less transparent in countries where debt financing dominates (e.g., France and Germany). (Brackney and Witmer 2005: para.9)

### 2.3. Adoption Progress and EU Endorsement Mechanism

In March 2002, the European Parliament passed a resolution requiring all firms listed on European exchanges to follow IFRS when preparing their financial statements. This requirement applied to fiscal years beginning on or after January 1, 2005, and affected approximately 7.000 firms listed on European stock exchanges. The prospects of adopting IFRS represented a substantial shift in financial reporting for European firms because many requirements in IFRS differ from those in domestic standards of European countries. Also the adoption of IFRS in Europe reflects an EU goal of achieving capital market integration; it is a necessary step towards convergence of financial reporting not only across Europe, but also between Europe and the rest of the world. Although the resolution requires firms to follow IFRS, which are issued by the IASB, a private-sector standard setter, the EC must endorse the standards before they are required in the EU. Thus, the EC retains the power to reject any standard, or part of a standard, it believes does not meet its criteria for endorsement. The three primary criteria are: the standard is not contrary to the EU's true and fair principle; the standard meets the criteria of understandability, relevance, reliability, and comparability; and adopting the standard is in the European public interest. (Armstrong, Barth, Jagolinzer and Riedl 2006: 4-5)

Figure 1 shows the EC endorsement process, which played a key role in the adoption of IFRS in Europe.

**Figure 1:** The Process of Adopting IFRS in the European Union



Source: (Armstrong, Barth, Jagolinzer and Riedl 2006: 35)

Summary of the process:

1. International Accounting Standards Board (IASB) issues a pronouncement.
2. Technical Expert Group (TEG) reviews pronouncement and provides endorsement advice to European Commission (EC).

3. EC prepares draft Regulation and sends to Accounting Regulatory Committee (ARC).
4. ARC provides recommendation to EC to either adopt or reject.
5. If ARC recommends adoption, EC issues Regulation for adopting IASB pronouncement.
6. If ARC recommends rejection, EC can return the matter to European Financial Reporting Advisory Group (EFRAG) for further review. Or,
7. EC can send the matter to Council for a final decision.

The European Financial Reporting Advisory Group (EFRAG) was established in 2001 by ten European organizations and it represents preparers, users and the accountancy profession. EFRAG's objectives are to provide input to the International Accounting Standards Board (IASB) standard setting process and to advise the European Commission (EC) on the endorsement of International Financial Reporting Standards (IFRS). (<http://www.efrag.org> – Accessed on December 09, 2010)

The EFRAG's work has been concentrated on responding to proposals issued by the International Accounting Standards Board (IASB), such as discussion papers and exposure drafts of new standards, and on advising the EC whether to endorse new financial reporting standards and interpretations. In order to exercise greater influence over the future direction of financial reporting, however, the EFRAG needs to place more emphasis on developing its own research and discussion papers at an early stage of the IASB's consideration of the topics concerned, and also to monitor the ongoing the IASB activities in order to give feedback to the IASB on a continuing basis. More specifically, the main functions/activities of the EFRAG should include: (<http://www.efrag.org> – Accessed on December 09, 2010)

- Proactive work providing input to the IASB on topics on its work program and related priorities and for example by the preparation of discussion papers
- Commenting on the IASB/International Financial Reporting Interpretations Committee (IFRIC)/IASCF consultation papers (discussion papers and exposure drafts)
- Impact assessments and effect studies on the IASB standards and IFRIC interpretations at the request of the EC
- Endorsement advice to the EC

After receiving and considering the EFRAG's endorsement advice, the EC may formulate a draft regulation and submit it to the Accounting Regulatory Committee (ARC), the other endorsement body. (*Brackney and Witmer 2005: para.19*)

The ARC's work will be supported by the Technical Expert Group (TEG), which will provide advice regarding the use of IASB standards within the EU's legal environment. The TEG was established by the European Financial Reporting Advisory Group (EFRAG) in June 2001. (Leblond 2005: 21)

ARC's role is to give an official endorsement opinion on the proposal; as a public-sector body, it operates within the confines of EU law, process, and oversight.

Endorsement decisions are determined by simple majority. In contrast to EFRAG, ARC considers the full range of potential economic and political effects of an IASB pronouncement on the Member States. (*Brackney and Witmer 2005: para.19*)

If the ARC recommends approving the proposed regulation, the EC is able to issue a final regulation adopting the IASB pronouncement. On the other hand, if the ARC recommends rejection, the EC has two options: It can return the controversial aspects of the issue to the EFRAG for further consideration and advice, or it can send the proposal, along with the ARC's recommendation to reject, to the EU Council for it to render a final adoption decision. (*Brackney and Witmer 2005: para.20*)

#### 2.4. Planned Implementation of IAS/IFRIC Regulation in EU

**Table 2:** The EU Endorsement Status Report - Position as at 13 October 2010

IASB/IFRIC documents not yet endorsed	EFRAG draft endorsement advice	ARC vote	When might endorsement be expected *	IASB Effective Date
<b>STANDARDS</b>				
IFRS 9 Financial Instruments (Issued 12 November 2009)	x 02/11/2009	x Postponed	x Postponed	x 01/01/2013
<b>AMENDMENTS</b>				
Improvements to IFRSs (Issued by IASB in May 2010)	√ 17/05/2010	√ Q3 2010	x Q4 2010	Various, earliest is 01/07/2010
Amendments to IFRS 7 Financial Instruments: Disclosures (issued 7 October 2010)	x Q4 2010	x Q1 2011	x Q2 2011	01/07/2011

Source: (<http://www.efrag.org> – Accessed on December 09, 2010)

\* The information shown is the EFRAG's current best estimate of the latest date for publication or endorsement, assuming endorsement is to occur. This information is provided to be helpful, but it is only an estimate.

#### IASB/IFRIC documents that have been endorsed

All IASB/IFRIC documents not shown in the above table have been endorsed, except that certain of IAS 39's hedge accounting requirements have not been endorsed.

The documents that have been endorsed, and the date of their endorsement and publication in the Official Journal, are set out in the table below.

**Table 3: IASB/IFRIC Documents That Have Been Endorsed**

	<b>Date of endorsement</b>	<b>Date of publication in the Official Journal</b>
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	23 Jul 2010	24 Jul 2010
Revised IAS 24 Related Party Disclosures	19 Jul 2010	20 Jul 2010
Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement	19 Jul 2010	20 Jul 2010
Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	30 Jun 2010	1 Jul 2010
Amendments to IFRS 1 Additional Exemptions for First-time Adopters	23 Jun 2010	24 Jun 2010
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	23 Mar 2010	24 Mar 2010
Improvements to IFRSs (Issued by IASB in April 2009)	23 Mar 2010	24 Mar 2010
Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues	23 Dec 2009	24 Dec 2009
Amendments to IFRIC 9 and IAS 39 Embedded Derivatives	30 Nov 2009	1 Dec 2009
IFRIC 18 Transfers of Assets from Customers	27 Nov 2009	1 Dec 2009
Amendment to IFRS 7 Improving Disclosures about Financial Instruments	27 Nov 2009	1 Dec 2009
IFRIC 17 Distributions of Non-Cash Assets to Owners	26 Nov 2009	27 Nov 2009
Revised IFRS 1 First Time Adoption of IFRS	25 Nov 2009	26 Nov 2009
Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	15 Sep 2009	16 Sep 2009
Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition	09 Sep 2009	10 Sep 2009
IFRIC 15 Agreements for the Construction of Real Estate	22 July 2009	23 July 2009
Revised IFRS 3 Business Combinations	03 Jun 2009	12 Jun 2009
Amendments to IAS 27 Consolidated and Separate Financial Statements	03 Jun 2009	12 Jun 2009
IFRIC 16 Hedges of a Net Investment in A Foreign Operation	04 Jun 2009	05 Jun 2009
IFRIC 12 Service Concession Arrangements	25 Mar 2009	26 Mar 2009
Improvements to IFRSs (issued by the IASB in May 2008)	23 Jan 2009	24 Jan 2009
Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate	23 Jan 2009	24 Jan 2009
Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation	21 Jan 2009	22 Jan 2009

Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation	17 Dec 2008	18 Dec 2008
IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	16 Dec 2008	17 Dec 2008
IFRIC 13 Customer Loyalty Programmes	16 Dec 2008	17 Dec 2008
Amendment to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations	16 Dec 2008	17 Dec 2008
Amendment to IAS 23 Borrowing Costs	10 Dec 2008	17 Dec 2008
Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments	15 Oct 2008	16 Oct 2008
IFRS 8 Operating Segments	21 Nov 2007	22 Nov 2007
IFRIC 11 IFRS 2: Group and Treasury Share Transactions	1 Jun 2007	2 Jun 2007
IFRIC 10 Interim Financial Reporting and Impairment	1 Jun 2007	2 Jun 2007
IFRIC 9 Reassessment of Embedded Derivatives	8 Sep 2006	9 Sep 2006
IFRIC 8 Scope of IFRS 2	8 Sep 2006	9 Sep 2006
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	8 May 2006	9 May 2006
Amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates	8 May 2006	9 May 2006
IFRS 7 Financial Instruments: Disclosures	11 Jan 2006	27 Jan 2006
IFRIC 6 Waste Electrical and Electronic Equipment	11 Jan 2006	27 Jan 2006
Amendments to IFRS 1 and IFRS 6	11 Jan 2006	27 Jan 2006
Amendments to IAS 39 and IFRS 4 Financial Guarantee Contracts	11 Jan 2006	27 Jan 2006
Amendment to IAS 1 Capital Disclosures	11 Jan 2006	27 Jan 2006
Amendment to IAS 39 Cash Flow Hedge Accounting	21 Dec 2005	22 Dec 2005
Amendment to IAS 39 The Fair Value Option	15 Nov 2005**	16 Nov 2005
IFRIC 5 Interests in Decommissioning Funds	8 Nov 2005	24 Nov 2005
IFRIC 4 Determining whether an arrangement contains a lease	8 Nov 2005	24 Nov 2005
Amendments to IAS 19 Actuarial Gains and Losses, Group Plans and Disclosures	8 Nov 2005	24 Nov 2005
IFRS 6 Mineral Resources	8 Nov 2005	24 Nov 2005
Amendment to IAS 39 Transition and Initial Recognition of Financial Assets and Financial Liabilities	25 Oct 2005	26 Oct 2005
Amendment to SIC 12	25 Oct 2005	26 Oct 2005
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	7 Jul 2005	8 Jul 2005
IFRS 2 Share-based Payments	4 Feb 2005	11 Feb 2005
Amendments to IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, and 40.	29 Dec 2004	31 Dec 2004
IAS 32 Financial Instruments: Disclosure and Presentation	29 Dec 2004	31 Dec 2004

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	29 Dec 2004	31 Dec 2004
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	29 Dec 2004	31 Dec 2004
IFRS 4 Insurance Contracts	29 Dec 2004	31 Dec 2004
Amendments to IASs 36 and 38	29 Dec 2004	31 Dec 2004
IFRS 3 Business Combinations	29 Dec 2004	31 Dec 2004
IAS 39 Financial Instruments: Recognition and Measurement	19 Nov 2004**	9 Dec 2004
IFRS 1 First-time Adoption of International Financial Reporting Standards	6 Apr 2004	6 Apr 2004
Extant standards and interpretations as at 1 March 2002, other than IAS 32 and 39 and related interpretations. (In other words, IASs 1, 2, 7, 8, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29, 30, 31, 33, 34, 35, 36, 37, 38, 40 and 41; and SIC 1, 2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 27, 28, 29, 30, 31, 32 and 33.)	29 Sep 2003	13 Oct 2003

Source: (<http://www.efrag.org> – Accessed on December 09, 2010)

\*\* Two parts of IAS 39 were not endorsed in 2004. One of those parts was subsequently endorsed in December 2005 at the same time as Amendment to IAS 39: The Fair Value Option. The other part relates to hedge accounting.

The European Commission adopted on 3 November 2008 a consolidated text of all International Financial Reporting Standards (IFRS) in force in the European Union (EU). That consolidated version puts together all IFRSs endorsed before 15/10/2008

### 3. Financial Reporting in Italy

#### 3.1. Enforcement of European Directives and Regulations and Italian Civil Code (Company's Law)

The European Union decision (EU directive 65/2001; EU law 1606/2002) to adopt International Financial Reporting Standards (IFRSs) for preparing consolidated financial statements for listed companies, will move from the current measurements based on conservatism, historical cost, fair value and realizable income. (Pili 2008: 2)

In according to EU options, the Italian policymaker has decided to make a further step toward accounting harmonization within EU companies, by requiring Italian financial listed and unlisted companies and non-financial listed companies to prepare also their separate and only financial statements in accord to IFRSs since 2006 (see Legislative Decree No. 38, 28th February 2005, para.4). Corporate entities that do not adopt IFRSs are required to apply the existing national GAAP. (Pili 2008: 6)

Companies applying National Principles:

- Medium to Large Size Companies
- Small Companies

The requirements provided in the civil code; (Pazzoli 2008: 6)

- The requirements provided in the civil code dedicated to the formal and substantial issues concerning the preparation of annual financial statements are included in art. 2423-2435
- The requirements relating to the preparation of consolidated financial statements are included in the Dlgs 127/91, art.25.

However, these requirements

- concern only financial statements of limited companies.
- are not required for entities operating in specific sectors.

The civil code requirements take care to safeguard the reliability and neutrality of the financial reporting, and provide a minimum content of disclosures. (Pazzoli 2008: 7)

**Table 4:** Traditional National Basic Practice Prior to EU Rules Enforcement

- Separate and Consolidated Financial Statements

Criteria	Explanations
Recognition	Financial period in which the transaction takes place
Measurement	Historical cost, net realizable value, depreciation, amortization, impairment, no revaluation, no fair value
Classification	By nature of the item, mandatory format and classes and sub-classes
Balance Sheet	One statutory format for balance sheet (Classification is based from less liquidity to more liquidity, liabilities classification is based cash flow, minority interests are shown separately but included in shareholders' funds. Assets and liabilities must not be offset, except where specifically permitted by a standard.)
Income Statement	One statutory format for income statement (Cost classification by nature, functional base, extraordinary items) Decreasing correlation to core business: revenues, cost of revenues, operating expense, financial items, extraordinary items, income taxes, net income/loss. Offsetting items at their net amount
Changes in Financial Position	Cash flow (increases/decreases in cash and cash equivalents. Offsetting items at their net amount
Notes to Financial Statements	Mandatory. Basic notes: accounting principles, significant items, extraordinary items, changes in major items, changes in net equity...

Source: (Franchi 2008a: 6)

### 3.2. National Accounting Standard Setting Body (OIC-Organismo Italiano di Contabilita)

A large amount of input to the IASB comes from national accounting standard setters in EU. These national institutions in EU are working with the IASB to help it achieve its goal of convergence in accounting standards around the world. These influential bodies are included in following table below:

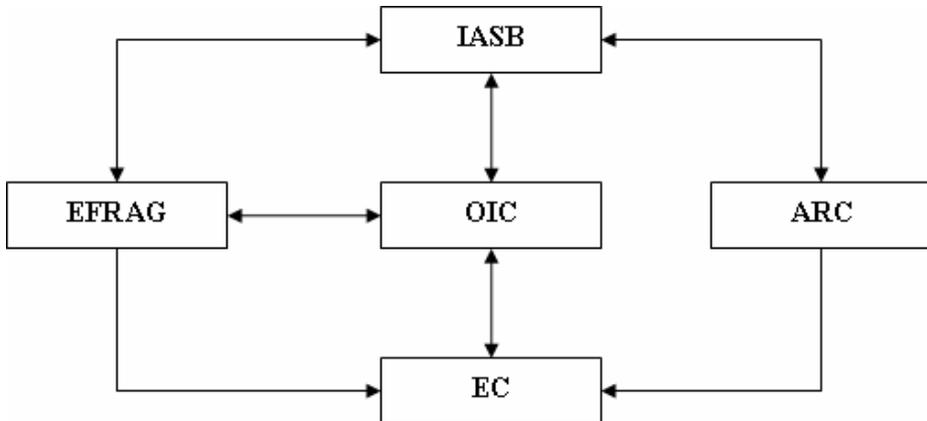
**Table 5:** Influential National Accounting Standard Setting Bodies in EU

Countries	Accounting Standard Setters
New Zealand	Financial Reporting Standards Board (FRSB)
France	Conseil Nationale de la Comptabilite (CNC)
Germany	Deutsches Rechnungslegungs Standards Committee (DRSC)
Italy	Organismo Italiano di Contabilita (OIC)

Source: (Malthus 2004: 13)

The OIC was established as a registered foundation on 27 November 2001. The OIC was formed in order to respond the needs perceived by the main public-sector and private-sector parties in Italy to establish a national standard setter that would be appropriately representative and would voice national options on accounting matters. (<http://www.oic.org>, Accessed on December 09, 2010)

The OIC determines the accounting principles to be applied in the preparation of company and consolidated financial statements, and in the budgeted and final accounts of non-profit entities and those of local and national public authorities. Furthermore, coordinating its own activities with those of other European standard setters, in compliance with current legislation, the OIC provides technical support for the application in Italy of the international accounting principles and EU directives on accounting matters. (<http://www.oic.org>, Accessed on December 09, 2010)

**Figure 2:** The Role of OIC in IAS/IFRS

Source: (Franchi, 2008a, p.17)

### 3.3. Adoption of IASs/IFRSs

On 25 February 2005, the Italian Council of Ministers approved a Legislative Decree regarding the options provided by EC 1606/2002. The EC 1606/2002 law requires that for each financial year starting on or after 1 January 2005, companies mentioned above shall prepare their consolidated accounts in conformity with the adopted IASs/IFRSs. As a result, IFRSs will be applied in Italy as follows: (Pili 2008: 6-7)

- a) Listed companies, issuers of financial instruments widely distributed among the public, banks, stock broking companies, fund management companies:
- consolidated financial statements: IFRSs compulsory from 2005;
  - separate financial statements: IFRSs optional from 2005. IFRSs compulsory from 2006;
  - Insurance companies:
  - consolidated financial statements: IFRSs compulsory from 2005;
  - separate financial statements: IFRSs not permitted in 2005. IFRSs compulsory from 2006 only for listed companies that do not prepare consolidated financial statements;
- c) Subsidiary and associated companies of the above companies, and other companies that prepare consolidated financial statements:
- consolidated financial statements: IFRSs optional from 2005;
  - separate financial statements: IFRSs optional from 2005;
- d) Companies other than the above:
- individual financial statements: IFRSs optional from a year to be determined by the Ministry for the Economy and Justice;
  - Small Companies preparing financial statements in abbreviated form
  - individual financial statements: IFRSs not permitted.

For all the entities cannot use IFRSs for preparing their financial statements, Italian policy maker is issuing a revised Civil Code that will make IFRSs and Italian GAAP more comparable by adoption several IASB's requirements.

**Table 6:** Transition to IAS/IFRS in Italy

<b>Companies</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Listed Issuing financial instruments to public Banks Other Financial Entities	Casualty and Life Insurance Companies	Subsidiaries consolidated by <b>A</b> Sub-Holdings which publish Consolidated Statements and their subsidiaries (excluding <b>E</b> )	Associated to companies which publish Consolidated Statements (excluding <b>E</b> )	Small Companies (as defined by Civil Code)
	<b>Mandatory Since 2005</b>	<b>Mandatory Since 2005</b>	<b>Voluntary Since 2005</b>		
<b>Consolidated Separate Transition for</b>	<b>Voluntary Since 2005 Mandatory Since 2006</b>	<b>Forbidden (1)</b>	<b>Voluntary Since 2005</b>	<b>Voluntary (2)</b>	<b>Forbidden</b>

(1) If unconsolidated; if listed, mandatory since 2006

(2) Initial year established by Ministry Decrees

Source: (Franchi 2008b: 13)

#### 4. Conclusion

There are a number of differences between the accounting applications of countries. Such differences arise from the different economic, political, social, and cultural conditions. These differences have been a significant move toward international convergence of financial reporting standards over the several years. This move toward convergence is being driven primarily by IASB, and is strongly supported by the EU.

The EU achieves its harmonization objectives through the Directives, mainly the Fourth and the Seventh of the EC Directives. The Fourth and the Seventh Directives were the main instruments used to promote accounting harmonization within the EU.

The Fourth Directive, which was aimed at harmonizing the national laws on the accounting regulations of both public and private companies. The Seventh Directive concerns consolidated accounting in the Member States. It requires a parent company to prepare consolidated accounts and a consolidated annual report.

The European Commission announced in June 2002 that all listed companies will be required to prepare consolidated financial statements in accordance with IFRS adopted by the EC from 1 January 2005.

The EC 1606/2002 law requires that for each financial year starting on or after 1 January 2005, certain companies shall prepare their consolidated accounts in conformity with the adopted IASs/IFRSs.

For the purpose of adopting the Directive 2003/51/EC's requirements, recently, a draft of the new Italian Civil Code has been issued by the Italian Accounting Standard Board, OIC (ED of Civil Code). This amendment of the law will require in the near future a completely revision of all Italian GAAP (OIC), that will be more comparable with IFRSs than the current version of them.

Showing fair value of the financial tools on the financial statement is the most important problem during application of the IAS/IFRS in Italy and the European Union. The problem also went over in the literature with content of the fair value accounting. It was expressed that some errors of the measurement and valuation of the fair value accounting played a role to emerge biggest financial crisis in recent years. With the recent financial crisis, European biggest bank and even some countries went to bankruptcy. During application of the fair value, if there is active market price is taken from the market value, if there is no active market price is taken from some valuation methods. Therefore, fluctuation occurs on the value of the financial instruments.

Using fair value as a valuation scale in some standards of IAS/IFRS was criticized in recent years; therefore, IASB has made some study and published a draft including fair value hierarchy.

The most important problem during the application of the IAS/IFRS in the European Union and also Italy is how to show fair value of the financial tools on the financial statement. For example, historical item that is priceless in the museum, how the price can be found without having active market. Fair value of the historical item is unknown so symbolic number is showed on the financial statement. On the other hand, financial statements are exaggerated with showing high assets value than real value.

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