THE NEW TRANSPARENCY IN FINANCIAL REPORTING

Posted on 22/02/2008

Category: Uncategorized

Until only a few years ago corporate governance was considered an issue exclusively for lawyers and regulators working with listed companies. Few company stakeholders had corporate governance concerns, and it was an expression largely unknown by the general public.

Hasta hace poco se consideraba aquello relativo al gobierno corporativo como un asunto exclusivamente reservado a los intereses de abogados que trabajan con empresas cotizadas. Después de los escándalos corporativos que salieron a la luz, la situación ha cambiado considerablemente. En este artículo, Miguel Pais de Oliveira del despacho Raposo Bernardo, describe la introducción de IAS/IFRS (estándares internacionales de contabilidad e informes financieros) como parte de la harmonización de datos de contabilidad para que un inversor pueda entender los informes financieros de una empresa con independencia de su país de origen. La Ley 35/2005 obliga a las firmas cotizadas a utilizar el sistema IAS/IFRS sin embargo el resto de corporaciones no tendrán que adoptar estas medidas, hasta el año que viene, aunque en su formato modificado.
The corporate scandals that came to light in the US and Europe at the start of the decade however

brought corporate governance issues to the forefront of many people's minds. Commentators and investors alike seemed amazed that companies subject to complex financial reporting issues could still engage in criminal malfeasance.

Subsequently the corporate world has changed considerably. Since the US introduced The Sarbanes-Oxley Act in 2002, legislative amendments have been seen around the world, including across Europe at both EU and domestic level (regulated by the CMVM in Portugal and in Spain the CNMV). Nevertheless this seems to still not be enough.

Nowadays, it seems unanimously accepted that an effective corporate governance model requires appropriate financial reporting based on solid accounting standards. It is clear that reliable corporate information enables alignment between management and investment, and comparability between operators.

This is one of the main reasons why IAS/IFRS (International Accounting Standards/ International Financial Reporting Standards – NIC/NIRF in Portuguese) implementation has increased significantly throughout the world over the last few years.

IAS/IFRS are an accepted set of standards and interpretation of accounting principles, with the main purpose of providing reliable and accurate corporate information. Rather than strict rules, it states a number of conceptual principles. It does not envisage to determine the taxable profit or to measure levels of capital adequacy, but only to allow stakeholders to have resources for comparability.

IAS/IFRS are the result of work first developed in 1972, initially by the IASC (International Accounting Standards Committee) adopting the IAS and then by IASB (International Accounting Standards Board), adopting IFRS. The underlying idea behind these standards is to promote a unique and common language, enabling any investor in the world to have reliable information on companies, in their own country or elsewhere.

IFRS implementation introduces a single accounting language, and many countries (more than 100) now require or permit the use of IFRS. An ongoing debate however is that between FASB (the Financial Accounting Standards Board) and IASB to enable GAAP (the basic accounting principles used in the US) to converge with IFRS.

Once this issue is resolved (the SEC already allows foreign companies to report under IFRS) it is surely a major step forward towards world harmonisation.

The EU is the leading region on accounting harmonisation, with several directives and regulations enacted since the 1970s. From January 2005 onwards, IAS/IFRS has been compulsory for listed companies and associated companies under consolidation in the EU.

In Portugal, Decree Law 35/2005 has introduced such a rule and is also the basis for a dual system encompassing:

1. the strict use of IAS/IFRS for listed companies and companies subject to consolidation, and

2. the applicability to all other companies under "adapted" IAS/IFRS, known as Normas Contabilistícas de Relato Financeiro (NCRF).

The second tier is not currently in force, with its enactment postponed to 2009. Notwithstanding, the basis for a Portuguese accounting revolution has been launched, where comparability and extended information depending on the size of the companies are the main purposes to be achieved. NCRF-PE is also expected to be introduced, for the exclusive use by small companies, resulting in practice in a further third tier.

Even considering such delays it seems that Portugal is well on the way to improved corporate governance practices.

As Christopher Cox, the current chairman of SEC, wisely said in a conference held in Washington at the beginning of the year “What matters most is the rule of law that backs up markets, and the timeliness and quality of financial information and other disclosure that makes comparability possible. Simply put, it’s hard to invest in what you don’t understand.” Is that not what corporate governance is all about?

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