



TERMS OF REFERENCE

Project: The impact on the banking regulation of the IFRS implementation

Project Owner:	Mr. Indrit Bank, Supervision Department, Bank of Albania.
Project Manager:	Mrs. Miranda Ramaj, Supervision Department, Bank of Albania.
Deputy Project Managers:	Mr. Armand Muharremi –Finance Division / Banka Popullore
Technical Anchor (TAN):	[John Hegarty, WB Center for Financial Reporting in Vienna]
Project Working Group:	BoA – Supervision Department, Accounting Department, Banks, Ministry of Finance, National Council of Accountants, Private Auditing Firms (local and international), AMF.

I - Background - Identification of the problem

In May 2008, the Albanian Ministry of Finance issued a decree making obligatory the application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) since January 1st 2008. Banks, as business entities, have to start with the application and implementation of the new standards.

In order to facilitate the transition process, Bank of Albania, as the banking system supervisory authority, has to adjust the banking regulatory framework and align it with the new accounting and reporting standards.

IFRS are considered a "principles-based" set of standards in that they establish broad rules as well as dictating specific treatments.

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International Financial Reporting Standards comprise:

- *International Financial Reporting Standards (IFRS)* - standards issued after 2001
- *International Accounting Standards (IAS)* - standards issued before 2001
- *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)*-**issued after 2001**
- *Standing Interpretations Committee (SIC)* - issued before 2001

There is also a *Framework for the Preparation and Presentation of Financial Statements* which describes some of the principles underlying IFRS.

The framework states that the objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions.

The underlying assumptions used in IFRS are:

- ***Accrual basis*** - the effect of transactions and other events are recognized when they occur, not as cash is received or paid;
- ***Going concern*** - the financial statements are prepared on the basis that an entity is a going concern and will continue in operation for the foreseeable future.

The Framework describes the qualitative characteristics of financial statements as being

- Understandable,
- Relevant,
- Reliable, ***and***
- Comparable.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Pakistan, India, GCC countries, Russia, South Africa, Singapore and Turkey. As of March 28, 2008, about 75 countries require the use of IFRS, or some form of modified IFRS.

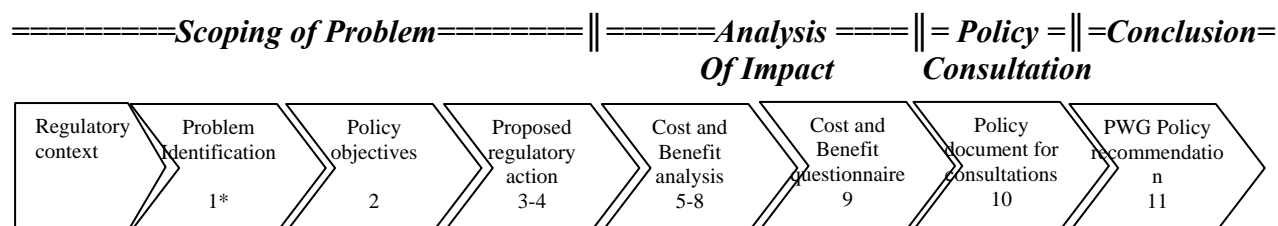
All listed EU companies (including banks and insurance companies) have been required to use IFRS since 2005. Prior to 2005, there were around 350 publicly listed companies that used IFRS, based on SPI Romania experience.

II - Project Objective – Definition of policy goals

1. To interpret the Decision of the Ministry of Finance for the timing of the application of IFRS standards.
2. To assess the impact of IFRS implementation in banking regulatory framework by preparing a list / identifying the affected laws, bylaws, regulations and guidelines.
3. To assess the main areas of impact and the general sense of the changes to be brought to the regulations.

In a later stage, SPI Albania and the local stakeholders could undertake a project on loan provisioning under IFRS.

III – Intended Strategy – Description of the Better Regulation 9 steps



* See attachment

The project management group (Project Owner, Project Manager, Deputy Project Manager, supported by the SPI Secretariat) will act based on the mandate received from the SPI Committee to assess the impact that the implementation of IFRS will have on the banking regulatory framework.

PMG with SPI Albania Secretariat support will conduct a research and collect all the materials and studies that are undertaken with regard to the accounting and reporting system in Albania in order to have an adequate image on the regulatory context

PMG will conduct, with SPI Albania Secretariat support, a research on the European experience with the implementation of IFRS in order to be used as a benchmark.

PMG, with the support of SPI Albania Secretariat, will draft a document on the main changes brought by implementing IFRS.

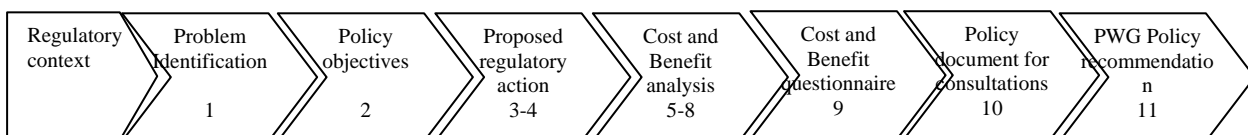
PWG will prepare a comprehensive list of the banking system regulations to be changed in order to implement IFRS and will formulate the sense of the changes in these regulations. PWG will acquire an understanding on the qualitative impact and influence that changes brought by IFRS implementation will have in the banking regulations / system.

PWG, with the support of SPI Albania Secretariat, will prepare an action for implementing IFRS.

IV- Methodology: from kick off to the accomplishment of the project

A. First PWG Meeting

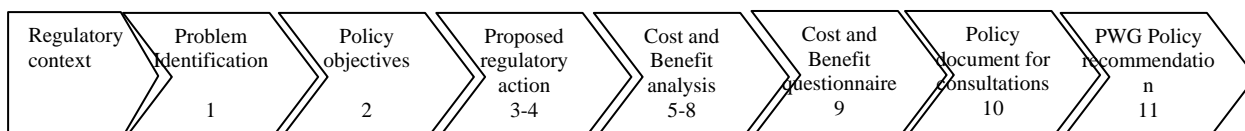
Preparation of PWG 1st meeting (PM/DPM and SPI Secretariat)



PMG and SPI Secretariat to prepare: a. a background note on current situation. b. a note on international experience; c. draft a document on the main changes brought by implementing IFRS

Output: First Draft of “Scoping of Problem” for PWG discussion

PWG 1st meeting

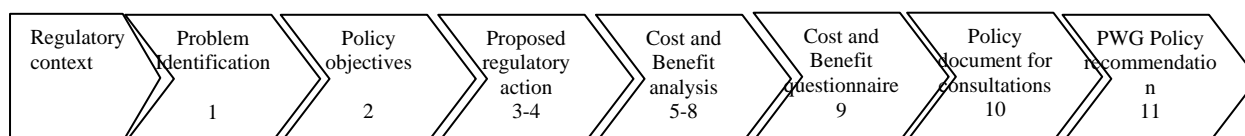


- Objectives:
- a. To agree on the presented TORs prepared by SPI Secretariat and endorsed by PO and PM/DPMs.
 - b. To understand the current context and the policy goals;
 - c. To finalize the list of the main changes brought by IFRS implementation;
 - d. To analyze the impact for users, regulated firms and regulators

Output: Information to complete a document comprising the Scoping of the Problem and the Impact Assessment (Impact Assessment Analysis Document - IAAD) to be endorsed in PWG 2nd meeting. The IAAD covers steps 1-8 of the Better Regulation Template.

B. Second PWG Meeting

Preparation of PWG 2nd meeting (PM/DPM and SPI Secretariat)



PMG and SPI Secretariat to draft the questionnaire for data collection.

PWG 2nd meeting

Objective: To discuss and agree on the cost and benefit questionnaire.

Output: (a) Endorsement of IAAD (1-8) and (b) Final questionnaire

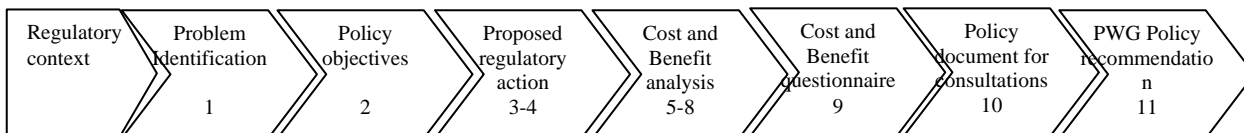
C. Third PWG Meeting

Preparation of PWG 3rd meeting (PM/DPM and SPI Secretariat)

SPI Secretariat to: collect data from PWG participating banks analyzing; summarize questionnaire results and prepare draft “summary impact assessment” for PWG discussion and endorsement.

PMG and SPI Secretariat will draft a document on the main changes brought by implementing IFRS and the policy option consultation paper

PWG 3rd meeting



Objectives: (a) To endorse Impact Assessment Analysis Document including “Summary Impact Assessment”; b) To finalize policy option consultation paper.

Output: a) IAAD; b) final policy option consultation paper.

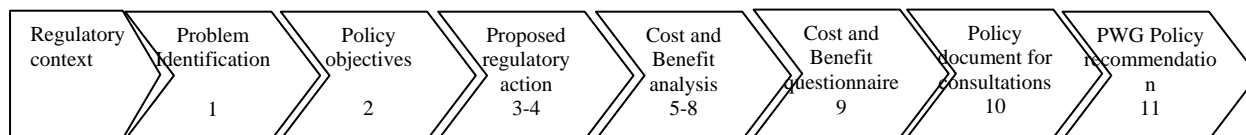
D. Fourth PWG Meeting

Preparation of PWG 4th meeting (PM/DPM and SPI Secretariat :

PM/DPM and SPI Secretariat to:

- a. Run consultations with stakeholders based on the policy option consultation paper;
- b. Draft feedback document.

PWG 4th meeting



Objective:

- a) To discuss the consultation feedback document and the policy document; and
- b) To agree on the policy recommendations (including the implementation action plan).

Output: Policy recommendations.

Following PWG 4th meeting:

Preparation of the SPI Committee paper.

SPI Secretariat will prepare the minutes of PWG meetings.

SPI Secretariat will send the final SPI Committee document for approval and then it will forward it to Bank of Albania for implementation. The document will be also presented to the Ministry of Finance.

VI - Project Team

The team is composed of:

- Bank of Albania,

- Banks
- National Council of Accountants
- Ministry of Finance

VII – Tentative PWG meeting schedule

- First meeting June 2008
- Second meeting July 2008
- Third meeting September 2008
- Fourth meeting September 2008

VI - Consulted documents:

- The set of International Accounting Standards.
- The set of International Financial Reporting Standards.
- World Bank Report, 2008, Migration Plan to IFRS, Albania.

The EU Better Regulation Approach	
Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
9. Data Questionnaire	To collect market structure data to perform a quantitative cost and benefit analysis
Consultations	
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report to decision-makers, based on Cost Benefit Analysis and market feedback

Source: CESR-CEBS-CEIOPS 3L3 Guidelines, adjusted by the Convergence Program based on experience.



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*Document prepared by
Elona Bollano, SPI Director for Analytics and Policy*

Objective 1. To interpret the Decision of the Ministry of Finance for the timing of the application of IFRS standards.

According to IFRS 1. First-time Adoption of International Financial Reporting Standards:

The effective date

General: First IFRS financial statements for a period beginning on or after 1 January 2004.

Albanian: First IFRS financial statements for a period beginning on or after 1 January 2008.

Objective: To prescribe the procedures when an entity adopts IFRSs for the first time as the basis for preparing its general-purpose financial statements.

Summary.

General: Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2006:

- Select its accounting policies based on IFRSs in force at 31 December 2006.
- Prepare at least 2006 and 2005 financial statements and restate retrospectively the opening balance sheet (first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2006:

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- since IAS 1 requires at least one year of comparative prior period financial information, the opening balance sheet will be 1 January 2005 if not earlier; and
- if a 31 December 2006 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2005, in addition to full financial statements for 2005 and 2006, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2005.

Albania: Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2008:

- Select its accounting policies based on IFRSs in force at 31 December 2008.
- Prepare at least 2007 and 2006 financial statements and restate retrospectively the opening balance sheet (first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2008:

- since IAS 1 requires at least one year of comparative prior period financial information, the opening balance sheet will be 1 January 2007 if not earlier; and
- if a 31 December 2008 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2007, in addition to full financial statements for 2006 and 2007, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2007.

In addition to the interpretation of the first objective, the main context of IFRS 1 summarized in 10 points:

“Opening IFRS Balance Sheet Approach”.

1. In its IFRS financial statement, an entity shall comply with all the versions of IFRS effective at the **reporting date** (the balance sheet date) and as a general principle apply them retrospectively subject to certain exemptions and exceptions in IFRS 1. For example, entities that perform the transition to IFRS in 2005 shall comply with all standard s effective at 31 December 2005.
2. An opening balance sheet shall be prepared in accordance with IFRS **at the date of transition**. The date of transition is the beginning of the earliest financial year for which full comparative information under IFRS is presented in its first IFRS financial statements.

3. The entity shall **recognize** all assets and liabilities in accordance with the provisions of IFRS and derecognize assets and liabilities not in accordance with IFRS.
4. Assets and liabilities recognized in the opening IFRS balance sheet shall be **measured** in accordance with IFRS including IFRS 1.
5. All **accounting estimates** shall be determined in accordance with the guidance provided under IFRS.
6. The effect of **changes in accounting policies** shall be recognized in equity in the opening IFRS balance sheet, except for reclassification between goodwill and intangible assets.
7. All the requirements in relation to **presentation and disclosure** under IFRS shall be fulfilled, including any classification to comply with IFRS.
8. Comparative Information for the prior period (e.g 2008 for Albanian companies) shall be fully in accordance with IFRS (with certain exemptions e.g. on application of IAS 39 Financial Instruments: Recognition and Measurement). The IASB does not require more than one year of comparative information prepared under IFRS.
9. Reconciliation between previous GAAP and IFRS of a) equity at the date of transition and the end of the latest period presented in the entity's most recent annual financial statement under previous GAAP, and b) profit and loss the latest period in the entity's most recent annual financial statements, with supplementary explanation necessary for the understanding of the transition shall be presented.
10. There are certain **optional exemptions** and **mandatory exemptions** to the general principle in IFRS 1 of retrospective application. The exemptions have been granted in areas in which costs would likely exceed the benefits to the users of the financial statements and where it has in practice proven difficult to make changes retrospectively e.g. concerning business combinations and pension liabilities.

Annex: SNRF 1. Standardi Ndërkombëtar i Raportimit Financiar 1

SNRF 1 - Standardi Ndërkombëtar i Raportimit Financiar 1: Adoptimi i Standardeve Ndërkombëtare të Raportimit Financiar për Herë të Parë

Njohja dhe matja

Bilanci i Çeljes sipas SNRF1

6. Një njësi ekonomike përgatit një bilanc të çeljes sipas SNRF-ve në datën e kalimit sipas SNRF-ve. Kjo është pika e nisjes për kontabilitetin e saj sipas SNRF-ve. Një njësi

ekonomike nuk ka nevojë të paraqesë bilancin e saj të çeljes sipas SNRF-ve në pasqyrat e saj të parat financiare sipas SNRF-ve.

Politikat kontabël

- 7 Një njësi ekonomike do të përdorë të njëjtat politika kontabël në bilancin e çeljes sipas SNRF-ve dhe përtë gjitha periudhat e paraqitura në pasqyrat financiare të saj, të parat sipas SNRF-ve. Këto politika kontabël duhet të jenë në përputhje me çdo SNRF që është në fuqi në datën e raportimit për pasqyrat financiare të saj, të parat sipas SNRF-ve, me përjashtim të rasteve të specifikuara në paragrafët 13-34B, 36A-36C dhe 37.
- 8 Një njësi ekonomike nuk zbaton versione të ndryshme të SNRF-ve, të cilat kanë qënë në fuqi në data të mëparshme. Një njësi ekonomike mund të zbatojë një SNRF të ri, i cili ende nuk është bërë i detyrueshëm, po qe se vetë SNRF1 lejon zbatimin e më hershëm.

Shëmbull: Përdorimi koherent i versionit të fundit të SNRF-ve

Informacion i përgjithshëm

Data e raportimit për pasqyrat financiare të njësisë ekonomike A, të parat sipas SNRF-ve, është 31 dhjetori 2005. Njësia ekonomike A vendos të paraqesë informacion krahasues në këto pasqyra financiare vetëm për një vit (shih paragrafin 36). Si rezultat, data e kalimit sipas SNRF-ve është fillimi i veprimtarisë së biznesit më 1 janar 2004 (ose, në mënyrë ekuivalente, mbyllja e veprimtarisë së biznesit më 31 dhjetor 2003). Njësia ekonomike A i ka paraqitur pasqyrat financiare vjetore sipas PPPK-ve të mëparshëm për çdo datë 31 dhjetor të çdo viti deri me datën 31 dhjetor 2004.

Aplikimi i kërkesave

Njësia ekonomike A i kërkohet të zbatojë SNRF-të, që janë në fuqi për periudhat që përfundojnë më 31 dhjetor 2005, në:

- (a) përgatitjen e bilancit të çeljes sipas SNRF1 të datës 1 janar 2004 dhe
- (b) përgatitjen dhe paraqitjen e bilancit të saj për datën 31 dhjetor 2005 (duke përfshirë shumat krahasuese për vitin 2004), pasqyrën e të ardhurave, pasqyrën e ndryshimeve në kapitalin neto dhe pasqyrën e flukseve monetare për vitin e mbyllur me datën 31 dhjetor 2005 (përfshirë shumat krahasuese për vitin 2004) dhe të informacioneve shpjeguese (përfshirë informacion krahasues për vitin 2004).

Në qoftë se një SNRF i ri nuk është bërë akoma i detyrueshëm, por lejon aplikimin e mëhershëm, njësia ekonomike A lejohet, por asaj nuk i kërkohet të zbatojë këtë SNRF, në pasqyrat financiare të saj, të parat sipas SNRF-ve.

- 9 Dispozitat kalimtare në SNRF-të e tjera zbatohen për ndryshimet në politikat kontabël të bëra nga një njësi ekonomike që aktualisht përdor SNRF-të. Ato nuk zbatohen për kalimin, sipas SNRF-ve, të një adoptuesi për herë të parë, me përjashtim të rasteve të përmendura në paragrafët 25D, 25H, 34A dhe 34B.



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NOTE

On

The impact of IFRS implementation on banking regulations

Current Situation of Legal Framework in Albania.

- I. Statutory framework**
- II. Banking regulations framework.**

I. Statutory framework

- The legal identity of all entities in Albania is established in the Law No. 7850, dated 29.7.1994, The Civil Procedure Code of the Republic of Albania (CPC). In CPC are identified the nature of commercial entities as private legal persons. It further outlines the liabilities of legal persons, the creation and content of obligations, and the legal foundations of the agency (management versus owners) relationship.
- The formation and regulation of the business entities is governed by the Law No. 7638, dated 19.11.1992, For the Commercial Companies. The regulatory framework in this regard is completed by sector specific laws, regulations and guidelines.
- The formation, regulation and the activity of banks is governed by the Law No. 9662, dated 18.12.2006 On Banks in the Republic of Albania.

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With regard to accounting and auditing, the law regulates the function of:

- (art. 38) *Audit Committee*, which is responsible for: (a) controlling and supervising the application of accounting procedures and internal audit, including those set by BoA; (c) proposes the authorized / external auditor; (e) approves public financial reports and declarations.
 - (art. 47) *Financial reports and accounting standards*, have to follow the form and substance of the Law on Accounting and the International Accounting Standards.
 - (art. 48) *External audit*, which is selected by the assembly of the shareholders and approved by BoA, performs the statutory audit of bank's financial statements. The statutory audit should apply the accounting and financial standards set in the Law of Accounting and by IFRS.
- The accounting standards and reporting, for the economic entities for profit located in the territory of the Republic of Albania are governed by the Law No. 9228, dated 29.04.2004, For Accounting and Financial Reporting (Accounting Law), in power since January 1st, 2006. In the law (article 4/3) is required that listed companies (none actually), banks and other financial institutions and large unlisted companies (not defined) to prepare their legal individual and consolidated financial statements according to IFRS (art. 9).
 - The Accounting Law is complemented by the General Accounting Plan – Council of Ministers Decree No. 783, dated 22.11.2006, On the Accounting Standards and Regulations. The new Accounting Plan entered in force with the Law in Accounting and will have legal power until December 31st, 2007 (article 3).
 - In May 2008, the Minister of Finance issued a decree No. 55, dates 05.05.2008, On the announcement and the compulsory implementation of the International Accounting and Financial Reporting Standards IAS/IFRS translated in the Albanian Language. IAS/IFRS become compulsory from January 1, 2008 (art.2).
 - In April 2008 was translated the whole set of International Accounting Standards, International Reporting Standards and the commentary (summary) translated in Albanian by the English company IMCL.

II. Banking regulations framework.

Bank of Albania is the supervisory authority for the subjects licensed by it. According to the Law no. 8269, dated 23.12.1997 “On Bank of Albania”, Bank of Albania has the exclusive authority to approve the commencement of the activity for banks through licenses and to supervise the activity of the licensed entities. Bank of Albania has the right to issue by-laws; decrees, regulation, guidelines and orders, to fulfill its mission as supervisory authority. BOA issues general and prudent regulations and guidelines for banks. All these create the supervisory regulatory framework for subjects licensed by BoA. The regulative framework is in line with “The Core Principles for an Effective

Supervision” and all other guidelines issued by the Basel Committee on banking supervision.

Inventory of Banking Supervision framework

Regulatory framework	To be revised Yes / No
Law “On Banks”, revised in 2006	No
Regulations	
Regulation “On administering bank’s large exposure risks” Rregullorja "Për administrimin e rrezikut nga ekspozimet e mëdha të Bankave"	
Regulation “On internal control systems of banks and foreign branches” Rregullore "Për Sistemin e Kontrollit të Brendshëm në Bankat dhe Degët e Bankave të Huaja"	
Regulation “On Credit Bureau in the Republic of Albania” Rregullore "Për funksionimin e Regjistrimit të Kredive në Bankën e Shqipërisë"	
Regulation “On risk administration in the foreign bank branches activities” Rregullore “Për administrimin e rrezikut në veprimtarinë e degëve të bankave të huaja"	
Regulation “On the use of information and communication technology on the subjects licensed by BoA”. Rregullore "Për përdorimin e teknologjisë së informacionit dhe komunikimit në subjektet e licencuara nga Banka e Shqipërisë"	
Regulation on the Consolidated supervision. Rregullore për mbikëqyrjen e konsoliduar	
Regulation “On anti- money laundering” Rregullore "Për parandalimin e pastrimit të parave"	
Regulation “On administrators of banks and foreign branches” Rregullore "Për administratorët e bankave dhe të degëve të bankave të huaja"	

Regulation “On Credit risk administration” Rregullore “Për administrimin e rrezikut të kredisë.	
Regulation “On foreign exchange activity” Rregullore "Për veprimtarinë valutore"	
Regulation “On statutory auditor / external authorized auditors” Rregullore "Për ekspertët kontabël të autorizuar"	
Regulation “On bank’s investments on commercial companies’ capital” Rregullore "Për investimet nga bankat në kapitalin e shoqërive tregtare"	
Regulation “On market risk” Rregullore "Mbi rreziqet e tregut"	
Regulation “On Cooperative banks” Rregullore "Për bankat kooperativë"	
Regulation “On capital adequacy” Rregullore “Për raportin e mjaftueshmërisë së kapitalit”	
Regulation “On foreign exchanges’ open position” Rregullore "Për pozicionet e hapura valutore"	
Regulation “On the amount and fill in the “initial minimal capital” on allowed activities for banks and foreign branches”. Rregullore "Për madhësinë dhe plotësimin e "kapitalit fillestar minimal" për veprimtaritë e lejuara për bankat e degët e bankave të huaja të licencuara"	
Directives	
Directive “On foreign exchange reports” Udhëzim "Për raportimin e veprimeve të këmbimeve valutore"	
Directive “On bank’s custody and liquidation”	

Udhëzim "Mbi kujdestarinë dhe likuidimin e bankave"	
Directive "On Deposit Certificates"	
Udhëzim "Për çertifikatat e depozitave"	
Directive "On interest rate risk administration"	
Udhëzim "Mbi administrimin e rrezikut të normës së interesit"	
Directive "On bank's liquidation"	
Udhëzim "Për likuiditetin e bankave"	
Methodical directive "On foreign exchange risks"	
Udhëzim metodik "Për rreziqet nga këmbimet valutore"	
Directive "On banks' regulatory capital"	
Udhëzim "Për kapitalin rregullator të bankës"	
Directive "On the procedures for extracting the report on borrowers and on the revision of the information stored on the Credit Register"	
Udhëzimi "Për procedurën e nxjerrjes së raportit mbi kredimarrësin dhe rishikimin e të dhënave që mbahen në Regjistrin e Kredive"	
Manuals	
Manual on the corrective actions toward banks and foreign branches in the Republic of Albania.	
Manuali i veprimeve korigjuese ndaj bankave dhe degëve të bankave të huaja në Republikën e Shqipërisë	
Bank Accounting Manual Issued in 1999, with the support of Ernst and Young	



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**NOTE
On
The impact of IFRS implementation on banking regulations
Some of the Main Changes Brought In Europe by Implementing IFRS**

- I. **Alternative Accounting Treatments in IFRS.**
- II. **Asset Valuation Under IFRS.**

I. Alternative Accounting Treatments in IFRS.

There are no major conflicts between European Directives and IFRS. One of the areas of greatest conflict in the process of adoption of IFRS relates to those accounting treatments which give the option of choosing between two alternatives. This is perhaps still the most controversial aspect of IFRS, although the IASB worked in 2003 to reduce these alternatives, since it gives a margin of discretion to preparers of financial statements when preparing their accounts, with the danger that entails.

The accounting treatments which envisage alternatives are the following:

- Calculation of the **cost of inventory** using the FIFO or weighted average cost formulas, IAS 2.

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- **Identification of geographical or business segments** as primary segments of the entity, in the presentation of financial information by segment, IAS 14¹.
- **Subsequent measurement of property, plant and equipment** at cost or at revalued amount, IAS 16.
- Accounting for non-monetary **government grants** received at the fair value of the assets received or at nominal value, IAS 20.
- Consideration of **government grants** relating to assets as reducing the value of the asset or as deferred income (on the liabilities side), IAS 20.
- Treatment of **grants relating to income** as other income or as deductions from the related expense, IAS 20.
- According to the revised IAS 23, **interest costs** must be compulsory accounted for as part of the cost of the relevant asset in case certain conditions are met. Those not meeting these requirements shall be treated as an expense.
- Recognition of an interest in a **jointly controlled entity** (joint venture) in consolidated
- Financial statements using proportionate consolidation or the equity method (alternative treatment), IAS 31².
- **Subsequent measurement of intangible assets** at cost or at revalued amount, IAS 38.
- **Subsequent measurement of investment property** at cost or fair value, IAS 40.

In addition to these alternative accounting treatments, IFRS also envisage different options for the **presentation of the financial statements**. Income statement can be defined by function or by nature (IAS 1), the cash flow statement may be presented using the direct, the indirect, or the alternative indirect model (IAS 7), and the statement of changes in equity can be prepared on an aggregate basis or highlighting solely the profits and losses not recognised in the current period's results³ (IAS 1). These alternatives even exist for the balance sheet, since IAS 1 allows the items to be presented according to their function within the operations of the enterprise (distinguishing the current from the non-

¹ IFRS 8, not yet endorsed by EU, removes this option by allowing reporting entities to freely define their segments.

² The exposure draft ED9 - Joint arrangements, issued in September 2007, removes this option by only allowing the equity method.

³ The revised IAS 1 issued in September 2007 modifies the set of financial statements to be disclosed, including a statement of other recognised income and expenses for those recognised directly in equity as well as the statement of changes in equity.

current) or else according to their liquidity, though this last criterion should be rarely used, only when the current-non current is less reliable.

II. Asset Valuation Under IFRS

The table below discloses the different methods of valuation of the main asset items allowed by IFRS.

Type of asset	IAS	Method 1	Method 2
Inventories 2	2	The lower of cost and net realizable value	--
Property, plant and equipment	16	Acquisition cost, less accumulated depreciation	Revalued amount, less subsequent accumulated depreciation and impairment
Leases	17	The lower the fair value of the asset and the present value of the minimum lease payment	--
<ul style="list-style-type: none"> • Lessee • Lessor 		Receivable at an amount equal to the net investment in the lease	--
Financial assets ⁴			
Loans and receivables	39	Amortized cost (those with a fixed maturity) or cost	---
Held-to-maturity investment	39	Amortized cost (those with a fixed maturity) or cost	---
Available-for-sale financial assets	39	Fair value	If fair value cannot be estimated (unlikely to happen), at cost
Financial assets held for trading	39	Fair value	If fair value cannot be estimated (unlikely to happen), at cost
Investment property	40	Fair value	Acquisition cost, less accumulated depreciation and impairment losses
Biological assets	41	Fair value, less estimated point-of-sale costs	If fair value cannot be estimated (unlikely to happen), at acquisition cost, less accumulated depreciation and impairment losses

⁴ IAS 39 also allows valuation of every financial asset (with some restrictions) at fair value, with fair value changes through income statement.



DRAFT

*Document prepared by
Elona Bollano, SPI Director for Analytics and Policy*

**NOTE
On
The impact of IFRS implementation on banking regulations
European Experience with IAS/IFRS implementation**

Introduction

II. Implementation of IFRS in Europe: Record of Legislation Process

III. IFRS Application Some Countries

Introduction: European experience with IFRS

The Lisbon Summit of the European Council in 2000 established the necessity of a unique set of accounting standards in the EU, for those consolidated groups listed in a stock market from year 2005 onwards, with the goal of promoting the creation of a European integrated capital market. The standards chosen were those issued by the IASB (International Accounting Standard Board): the International Financial Reporting Standards (IFRS, known until 2002 as International Accounting Standards – IAS) and some interpretations related with them (IFRI – International Financial Reporting Interpretation - or SIC in their former acronym).

The adoption of IFRS means a breaking point with the accounting rules and principles of each Member State, as well as a first step into an effective harmonization throughout the EU.

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II. Implementation of IFRS in Europe: Record of Legislation Process

1. In **1995**, the Communication "Accounting Harmonisation: a new strategy vis-à-vis international harmonisation" **proposed that the member states allow the Global Players to use IFRS**, as long as these standards were in conformity with the Accounting Directives and their implementation in the European countries. As shown in the summary table, some European countries adopted this proposal (namely, Austria, Belgium and Germany). It was accepted that Accounting Directives would be amended to eliminate conflicts -if any- with IFRS.

2. **From 1996**, a Task Force and the Contact Committee first, and EFRAG2 since 2001, studied the conformity between European Directives and IFRS, as published. In 1996 it was concluded that no major conflicts between both regulations existed. Afterwards, with the approval of new IFRS, some conflicts were identified (fair value, investment properties, biological assets, et cetera) that have been solved, with the approval of new regulations in Europe (see following paragraphs).

3. In **June 2000**, and as a result of the Lisbon European summit and the Communication on the "**EU Financial Reporting Strategy: the way forward**"³, the Commission proposed that **all listed EU Companies should prepare their consolidated accounts in accordance with IFRS, at the latest in 2005**. This strategy was established in European Law, through a **system of recognition of the IFRS (endorsement mechanism)**. It is important to highlight that whereas the target of the 1995 Communication was to provide an answer to a specific problem of several listed groups in non-European countries, the new strategy had a more ambitious objective: to implement the requirements **to build a European capital market**. To this end it was necessary to make financial reporting and disclosure in Europe more comparable.

4. In **February 2001**, the proposal for a **Regulation of the European Parliament and of the Council on the application of International Financial Reporting Standards**⁴, introduced the requirement for all EU listed corporations to produce their consolidated accounts in conformity with the IFRS, at the latest in 2005, and proposed the **setting up** of an **Accounting Regulatory Committee (ARC)** mandated by the Commission, at the political level, and the **European Financial Reporting Advisory Group (EFRAG)**, a private group of European experts in accountancy to act as a liaison between the EU and IASB5. It was decided to **introduce this by means of a Regulation, rather than a Directive**, because a Regulation does not need specific implementation by EU countries, thus avoiding delays and national variations.

5. In **September 2001**, a Directive of the European Parliament and the Council was passed to amend Directives 78/660/CEE, 83/349/CEE and 86/635/CEE, relating to valuation rules applicable to individual and consolidated accounts of limited liability companies, banks and other financial institutions, in order to introduce fair value in the valuation of certain financial instruments.

6. In **June 2002**, the EFRAG issued an opinion recommending endorsement of IAS (1 to 41) and SIC (1 to 33) extant at 1 March 2002 "en bloc", once the above-mentioned Directive eliminates all remaining conflicts. However, the decision of the European Commission excluded IAS 32 and 39 (and their related interpretations) from the initial endorsement of IFRS/IAS.

7. In **July 2002**, the European Council approved the EU regulation. Companies listed in Europe have to establish their consolidated accounts in accordance with IFRS by 2005. Postponement until 2007 was granted to companies that use another reporting system, due to quotation on a non-European stock market, and to companies that only quote fixed-interest rate securities. The Regulation set a deadline to decide on the applicability of the IFRS: 31 December 2002.

8. In **July 2002**, the IAS Directive⁶ was approved, defining the legal framework of the implementation of IFRS, determining the scope of companies which have to adopt IFRS compulsorily and the possibility given to member states of going further in the application of IFRS.

9. With respect to Council Directive 78/660/EEC on annual accounts of certain types of companies as regards amounts expressed in euro, there is a project to change the current requirements to present annual accounts using the abbreviated format. It is foreseen the amendments to be in force by 2009.

10. In **June 2003: adoption of Directive 2003/51/EC to modernise and update accounting rules**. A new Directive was issued, amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. The directive allows Member States to be able to modify the presentation of the profit and loss account and balance sheet in accordance with international developments, as expressed through standards issued by the International Accounting Standards Board (IASB) as well as to permit or require the application of revaluations and of fair value in accordance with issued by the IASB. The information should not be restricted to the financial aspects of the company's business. It was expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position. The Directive also points out the necessity of consistency with the audit reports in Europe.

11. In **July 2003**, the ARC voted unanimously in favour of the draft Commission Regulation proposing the endorsement of all existing IFRS and related interpretations, with the exception, at this stage, of IAS 32 and 39.

12. In **September 2003**, the European Commission adopted the regulation endorsing IFRS. As agreed by the ARC in July, IAS 32 and 39 as well as their related interpretations (SIC 5, 16 and 17) were not included in the scope of the endorsement. The endorsement referred also to banks and insurance companies, as stated by the IAS Regulation adopted in 2002 by the Council and the European Parliament. In October

2003, the endorsed IFRS were published in the official languages of the EU and in the Official Journal of the EU.

13. At the end of **March 2004**, the Council of Ministers gave the final approval to a new Transparency Directive, which will improve the information investors receive. Amongst the provisions, it is stated that half-yearly reports will be based on IAS 34, that quarterly financial reports are not compulsory, although an interim management statement is, and that more information about related parties will be required.

14. In **April 2004**, the Commission amended the regulation adopting IFRS, in order to include IFRS 1 among the adopted standards. Consequently, IFRS 1 was published in the Official Bulletin of the EU7.

15. On **1st October 2004**, ARC endorsed IAS 39, with two parts of it optional (restriction on the use of fair value to liabilities, and permission of use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis) under a national decision.

16. On **1st January 2005**, the IFRS regulation came into force, moving over 8.000 listed European companies to IFRS. First financial statements presented according to IFRS were those for the first quarter of year 2005. 17. IFRS 2 was endorsed by the European Commission in **February 2005**. This standard is included in the stable platform, that is to say, standards to be applied by European listed groups when presenting their financial statements.

18. Although in **October 2002**, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly announced their commitment to achieving real convergence between their respective accounting standards by 2005, the agreement was not accomplished finally. The European Commission held a meeting with SEC (Stock Exchange Commission) in **April 2005**, in the search of an agreement between IFRS and US GAAP. Their common plans take into consideration that by no later than 2009; listed companies in USA using IFRS will not have to present a reconciliation statement to US GAAP.

19. In **May 2005**, ARC recommended the endorsement of IFRIC 2 (Members' shares in co-operative entities and similar instruments)8; whereas EFRAG did not supported the endorsement of IFRIC 3 (Emission rights). Furthermore, in July, IASB withdrew IFRIC 3 Emission Rights with immediate effect. 20. In **November 2005**, the European Commission adopted a regulation endorsing the fair value option in IAS 39, implying the elimination of one of the two carve-outs to IAS 39. The regulation's adoption is retroactive and companies were allowed to apply the amended IAS 39 for their 2005 financial statements. An amendment on hedging is awaited in order to remove the remaining carve-out of IAS 39 and therefore fully endorse IAS 32 and IAS 39.

21. In the **last quarter of 2005**, the European Commission endorsed the following IFRS, interpretations and amendments: amendments to IAS 39 Transition and initial recognition of financial assets and financial liabilities; amendments to IAS 19 Employee benefits;

IFRS 6; IFRIC 4; IFRIC 5; amendments to IAS 39 Cash-flow hedge accounting of forecast intragroup transactions; amendments to IAS 39, amendments to IAS 1 Capital disclosures; IFRS 7; IFRIC 6; amendments to IAS 21; and IFRIC 7.

22. In **April 2006**, the European Union adopted a new auditing directive, which broadened the scope of the existing 84/253/EEC Directive. It specifies the duties of the statutory auditors, their independence and their ethics, apart from introducing new requirements for external quality assurance and public oversight of the auditing profession.

23. In **June 2006**, a Directive⁹ modified the 4th and 7th company law directives (78/660/EEC and 83/349/EEC) as well as the accounting directive for banks (86/635/EEC) and for insurance undertakings (91/674/EEC). Main amendments introduced are the following:

- collective responsibility of board members for the financial statements and annual reports is established.
- transparency in related parties' transactions and off-balance arrangements is enhanced.
- a corporate governance statement is required for publicly traded companies.
- size thresholds for small and medium-sized entities are raised (balance sheet total and net turnover thresholds are increased by 20%, to 17.500.000 € and 35.000.000 € respectively).

24. In **July 2006**, the IASB announced that application of new IFRS or major amendments will not be established before 2009, providing four years of stability in the accounting framework to those institutions which applied IFRS for the first time in 2005.

25. In **September 2006**, the European Commission published Regulation 1329/2006, adopting IFRIC 8 (Scope of IFRS 2) and IFRIC 9 (Reassessment of embedded derivatives).

26. In **November 2006**, a new procedure for endorsement of IFRS was set up. According to it, the European Council will decide on those issues where the European Commission and the European Parliament can not reach an agreement.

27. In **December 2006**, the European Commission extended two more years the exemption granted to foreign companies presenting financial statements under national GAAP and issuing securities in EU stock markets (see paragraph 7). These non-EU companies are not subject to present a restatement to IFRS until December 2008 if they prepare their financial statements according to Canadian-GAAP, Japanese-GAAP, US-GAAP or an IFRS equivalent national-GAAP

28. In **March 2007** the European Commission adopted transparency regulations concerning issuers' disclosures of half-yearly financial information, investors' disclosures of major holdings, minimum pan-European information disseminated to the public, and minimum requirements for acceptance of third-country regulations.

29. In **April 2007**, the European Parliament opposed to implementation of IFRS 8 (Operating segments) in European Union, mainly because segments are not univocally and objectively defined in the new standards and its adoption would mean the acceptance of an “alien” standard (from USA) into European legislation.

30. In **April 2007**, the European Commission reported on IASB/IASCF governance areas which shall be improved:

- accountability of the Board and the Trustees to their constituents
- role of the IFRIC should be strengthened by means of explaining relationships with shareholders, reporting in writing reasons why topics are not addressed and establishing liaisons with national standards setters
- more representation should be given to those countries already using IFRS

31. In **June 2007**, the European Union published two Commission Regulations adopting IFRIC 10 (Interim financial reporting and impairment), and IFRIC 11 (IFRS 2 – Group and treasury share transactions).

32. In **June 2007**, the European Commission published a public consultation regarding the endorsement of IFRS 8 (Operating segments), for its consideration by European Parliament when it decides about the matter in September 2007. The consultation is addressed to a wide range of constituents: users, preparers, auditors, academics and standard setters.

III. IFRS Application Some Countries

As mentioned above, the fact that there are no conflicts between European Directives and IFRS does not necessarily mean that there are no conflicts with the national laws of the European countries. For the consolidated accounts of listed groups the situation is clear because conflicting situations have been removed from the national legislation: in such a case, the Regulation approving the IFRS is the one applicable. The options remain open for unlisted consolidated groups and for individual accounts of, both, listed and unlisted companies. Some European countries have decided to introduce in their national legislation the accounting options accepted by IFRS, which are available in the Accounting Directives, but which have not yet been implemented in the country (for instance, Spain is rewriting its national accountancy laws and, in addition, individual and consolidated accounts of financial institutions and also individual accounts of listed corporations must include from 2005 an IFRS reconciliation statement). Adopting this solution is very difficult in those countries with a close link between accounting and taxation (Germany and France, for example), and, consequently, it is rather difficult to adopt IFRS as the basis for the individual accounts. To sum up, for the individual accounts of all countries studied, except the Italian exemption mentioned below, there is no obligation to use IFRS directly.

a. Austria

The Austrian Commercial Code was amended in 1999 and allows all Austrian groups, whether listed or not, to use international standards instead of Austrian financial standards, if they comply with the EU Directives.

According to the regulations of the European parliament capital-market oriented companies are compelled to establish their consolidated accounts under IFRS with the beginning of the financial year 2005 as far as they are listed at a stock exchange within the European Union. Non capitalmarket oriented enterprises will still have a choice to establish their consolidated accounts under IFRS. The individual accounts of not capital-market oriented and capital-market oriented enterprises have to be established only under the Austrian commercial code.

As it stands only for information it will be allowed to establish the individual accounts under IFRS. This IFRS accounting will have no discharging effect because of the dependence between the Austrian commercial code and the Austrian tax law.

Similar to the situation in Germany those enterprises that are capital-market oriented will have to create three different sets of annual accounts:

- tax accounts (tax law),
- individual accounts (Austrian commercial code),
- consolidated accounts (IFRS).

b. Belgium

Belgium's accounting framework is based on the Commercial Code of May 1999 and it's implementing royal decree of 30 January 2001, while consolidated accounts are based on a particular royal decree of March 1990. The authorities set up the accounting regulation after taking into consideration the opinion of the ASC (Accounting Standard Commission). The main differences between Belgian legislation and IFRS are chiefly based on the prudence principle and on the existence of a tax burden that heavily influences Belgian rules, since Belgian financial statements are the main basis for corporate tax returns. **Global players are allowed to use IFRS (not subject to authorisation) or US GAAP (only until 2007 and subject to authorisation from the Ministry of Economy) to prepare consolidated accounts** (also including medium-sized companies to be listed on the EASDAQ). This is called the "Global Player Policy". 282 out of 886 companies used non- Belgian standards when preparing consolidated accounts (database on consolidated accounts filed with the NBB for the year 2005). Of these 282 companies, 166 used IFRS.

On the 9th of February 2005, a Royal Decree was published to regulate the use of IFRS in **consolidated** accounts:

Quoted companies:

- compulsory application of IFRS as from the 1st of January 2005, by virtue of the direct effect of the European IFRS Regulation
- postpone the application of IFRS until 2007 for companies that use another reporting system, due to quotation on a non-European stock market, and for companies that only quote fixed-interest rate securities

Unquoted companies:

- possibility to apply IFRS on a voluntary basis for accounting periods starting on or after 31st of December 2003

Regarding the **statutory** financial statements, the Belgian Accounting Standards Committee proposed four years ago to proceed to a practical adjustment of the current Belgian accounting law to the IFRS standards. To study this issue, three working groups have been established that concentrate on the following topics: tax law, company law and SMEs.

By means of the Royal Decree of the 8th of March 2005, Belgium decided not to introduce into Belgian accounting law, for the time being, the framework created by the European Directive relating to the valuation at **fair value** of financial instruments. The Royal Decree only requires information on the fair value in the notes to the financial statements.

Taking into account the non-existence of a tax burden in the case of **real estate investment funds**, and taking into account the limited number of such funds, a Royal Decree has been published on the 29th of June 2006, in order to oblige real estate investment funds to establish their statutory financial statements in accordance with IFRS as from 2007. Real estate investment funds are allowed to draw up IFRS-compliant statutory accounts as from 2005, on a voluntary basis. The Royal Decree also defines the format that should be used for these IFRS-compliant accounts. As a result of the discussion paper written by the European Commission¹¹ regarding the simplification of accounting rules for small and medium-sized companies, it is unlikely that any other convergence towards IFRS will come into force in the near future.

c. France

In April 1998, the CRC (Accounting Regulation Committee) was created with legal authority to approve new accounting standards. In practice, **only French standards are allowed**¹². In 1999 a new methodology on consolidation was passed by the CRC in order to reconcile, to a certain extent, French GAAP with IFRS. Significant differences still remain (intangible assets, goodwill, business combinations, fair value and optional adjustments). In June 2003, the National Accounting Body (CNC) has restated its preference as regards the faculty given to each member states to adopt IFRS for individual accounts. At the latest in 2004, the French Parliament has followed CNC's preferences.

CNC's preferences:

Consolidated accounts	Listed groups	IFRS compulsory from 01.01.2005 onwards with postponement until 2007 for companies that only quote fixed-interest rate securities (approximately
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	Unlisted groups	970 groups concerned) Option given to the groups to adopt IFRS in 2005. Progressive convergence of national GAAP towards IFRS (approximately 8,000 groups concerned)
Individual accounts		Option not allowed. Progressive convergence of national GAAP towards IFRS with simplifications for SME

From 2005 listed companies must apply IFRS for their consolidated accounts (postponement until 2007 for companies that only quote fixed-interest rate securities), while unlisted groups have the option to adopt IFRS or national GAAP. Adaptation of regulation CRC 99-02 relating to consolidated accounts was completed in November 2005: new rules came into effect from 1st January 2006.

As regard individual accounts, the wish of the National Accounting Body (CNC) is a progressive endorsement of IFRS through a selective approach. **National rules have already evolved with the partial adoption of four IFRS, namely IAS 16, 36, 37 and 38.** Besides, **changes in tax regulation** seem to have preserved so far the link between accounting and tax.

The CNC worked on the impact of IFRS related to taxation, SMEs, and law issues. Reports were published in 2005 and 2006. About the SMEs project of the IASB, the CNC has analyzed the discussion paper, during regular meetings, focussing on four topics:

- consolidation
- financial instruments
- recognition of assets and liabilities
- presentation of financial statements

At least a new organization of the National Accounting Body (CNC) has been studied to increase its resources so as to improve its functioning and its influence in the decisions process.

d. Germany

In 1993 Daimler-Benz AG decided to expand its activities. To raise additional capital the company applied to the US SEC for permission to be listed on the New York Stock Exchange. To this end, the company had to comply with the US accounting standards (US GAAP). At the same time, it was still obliged to publish its financial statements in Germany in accordance with the German Commercial Code. Therefore, two kinds of financial statements had to be prepared. Under German Commercial Code, the company reported a profit of DEM 615m, and in accordance with US GAAP, a loss of DEM 1.839m. Thus, German accounting rules obtained a bad reputation, even within Germany the rules for consolidated accounts were the target of extensive criticism.

In the same year, Puma AG was the first German company publishing consolidated financial statements according to IFRS. After 1993 more and more German enterprises decided to publish their financial statements voluntarily in accordance with IFRS or US GAAP. Some of them hid the accounts based on the German Commercial Code at the same time, others even stated that they fulfil IFRS and the German rules in one set of statements, so called dual financial statements. However, this was only possible because of the missing enforcement of accounting standards in Germany.

In 1998 the law has been changed and from this year on it has been possible to draw up consolidated accounts under IFRS or US GAAP only, provided that the German company is listed on the German Stock Exchange. This regulation was valid until 2004. At the same time, the German Federal Ministry of Justice founded a Committee to represent Germany in international standard setting committees and to develop new standards for consolidated accounts based on the German Commercial Code.

Currently, a discussion takes place in Germany on the future of individual accounts, especially for these enterprises which are capital-market oriented and have to prepare the consolidated accounts according to IFRS from 2005 on. They prefer the idea of moving towards one commercial code for individual as well as for consolidated accounts.

On the other side, there are a lot of German enterprises which are not capital-market oriented and hence they are not very interested in changing their accounts towards IFRS or even adapting the German Commercial Code in small steps with IFRS-rules.

Another problem is the close relationship of German tax laws and the Commercial Code. There is a lot of conformity between them which enables German enterprises to create only one unified annual accounts. As IFRS can not be used as the basis for German taxes, a liberalization of the individual accounts towards IFRS would make it necessary that the German government establishes independent tax rules.

With the fiscal year 2005 the consolidated accounts of capital-market oriented German enterprises must be established under IFRS rules. Non capital-market oriented enterprises have a choice to establish their consolidated accounts under IFRS or German Commercial Code. Individual accounts of not capital-market oriented and capital-market oriented enterprises have to be established under the German commercial code. Only for information it is allowed to establish additional individual accounts under IFRS, which can be published in the federal gazette instead of the one based on the Commercial Code. This IFRS accounting will have no discharging effect because of the dependence between the German commercial code and the German tax law as well as capital maintenance rules. So far, no individual accounts under IFRS were published in the federal gazette.

A debate about the need to internationalize financial statements for small and medium-sized enterprises is currently taking place in Germany. The positions of the opponents are:

- it is very expensive to switch from German GAAP to IFRS rules with high employee training expenses and large investments in data processing systems,
- IFRS rules are frequently amended,
- many of the IFRS rules are very complex, some even being too complex for big corporations,
- IFRS rules are more comprehensive than the rules of the German commercial code.

The standpoint of the supporters is:

- it is not good to have two accounting classifications,
- banks and rating agencies want to have one system of accounts for their financial statements analyses, and that will probably be IFRS,
- many German small and medium-sized enterprises have a lot of international customers, IFRS financial statements fit their needs,
- some small and medium-sized enterprises look for investors or new owners, therefore it is better to have international accounts,
- some small and medium-sized enterprises are subsidiaries and they need to draw up financial statements based on IFRS in order to be consolidated. Therefore, costs should be reduced for these enterprises.

The publication of the Exposure Draft “IFRS for SMEs” gave this discussion a new direction. More or less all interested parties in accounting do not see this draft standard as appropriate for SMEs in Germany.



SPI Project on the impact of IFRS implementation on the Banking regulatory framework

Project Objectives

- To interpret the Decision of the Ministry of Finance for the timing of the application of IFRS standards.
- To assess the impact of IFRS implementation in banking regulatory framework by preparing a list / identifying the affected laws, bylaws, regulations and guidelines.
- To assess the main areas of impact and the general sense of the changes to be brought to the regulations.

Project Management Team

Project Owner (PO): Indrit Banka, Supervision Director, BoA

Project Manager (PM): Miranda Ramaj, Supervision Deputy Director, BoA

Deputy Project Manger (DPM): Armand Muharremi, Head of Finance Department, Banka Popullore

Minutes

First meeting

July 3, 2008—AAB premises

Attendees: Miranda Ramaj, BoA (PM)
Armand Muharremi, Banka Popullore (DPM)
Ilir Pustina, BoA (member)
Julia Manushi, Raiffeisen Bank (member)
Lirola Keri, National Accounting Council (member)
Lyela Rama, AMF (member)
Romira Hoxha, KPMG (member)
Kledian Kodra, PriceWaterhouseCooper (member)

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Skender Emini, BKT (member)
Andin Jakova, BNT (member)
Merita Musliu, BNT (member)
Zinaida Cako, Emporiki Bank (member)
Albana Hallvaxhiu, Banka Popullore (member)
Ramona Bratu, SPI Regional Operations Director
Elona Bollano, SPI Albania Director of Analysis and Policy
Anuela Ristani, SPI Albania Director of Operations

I & II Welcome Note and Introduction of the Participants.

SPI Regional Director of Operations welcomed all the PWG members and introduced the PMT, and the SPI Albania Secretariat. All members introduced themselves and the institutions they were representing.

III. Project Terms of Reference presentation

PM summarized the purpose of this project and the due entrance in force of the Directive on IFRS implementation - January 2008. PM underlined that the issuance of the Directive will not provide for immediate changes in the reporting system to the Bank of Albania. Banks will still have to report accordingly to same criteria as before. However in order to be ready to shift from the current form of reporting to the adaptation with the IFRS, a thorough analysis of the impact of IFRS implementation needs to be completed. It is very important to collaborate with the banks in order to assess the changes in the reporting system.

SPI Secretariat introduced the Terms of Reference and asked for the feedback of the PWG members. SPI Secretariat explained the EU Better Regulation methodology and the process of the work to be conducted by the WG, as well as the consultation process and approvals/endorsements to be applied for in order to ensure a consensus among the banking community and BoA. As agreed in the meeting with the AAB Legal Committee, the list of the regulations to be amended in order to implement IFRS will be reviewed by this Committee. The project enjoys the benefit of having as Technical Anchor one representative from the World Bank Center for Financial Reporting Reform.

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- SPI Secretariat opened the discussions on the first project objective, the interpretation of the Decision of the Ministry of Finance for the timing of the application of IFRS standards.

Decision of the Minister leaves room for two possible options regarding the application of IFRS on which Banks demand clarification:

- a. 1 January 2008 could be the starting point for the implementation of the IFRS , or
- b. 31 December 2008 could be the starting point for IFRS implementation.

- National Accounting Council (NAC) should provide an interpretation of the decision and clarify for the banks which of the two options will be applicable according to the legislation. NAC raised the question on banks' preference for a transition period.
- SPI Secretariat will follow up next week with banks with a short questionnaire in order to identify banks that are not currently reporting to their mother companies under IFRS and to assess their readiness of implementing IFRS. The opinions of the banks may be backed up from their respective auditor's opinions.
- PMT and SPI Secretariat will have a separate meeting with the NAC to better analyze the options of interpretation.

IV. Current Context and Policy Goals

SPI Secretariat introduced the background note on current situation, pointing out the main provisions on IFRS implementation and the list of all banking regulations, out of which some will not be affected by IFRS implementation, some will be slightly impacted (through the references to the accounting manual) and some will suffer substantial changes. PWG members will send their feedback on the list of banking regulations and on the impact of IFRS implementation on them after they have consulted the materials. SPI Secretariat introduced also the note on international experience. PWG assessed that the international experience could serve only as reference for assessing the magnitude of the changes produced by IFRS

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implementation, but not as models to be followed because of the differences in the national accounting standards and in the regulatory framework.

V. Recognition of the main changes brought by IFRS implementation

SPI Secretariat introduced a draft document on the main changes brought by the implementation of IFRS, as noticed in the European experience.

PWG members pointed out some of the main changes brought to Albanian banks by IAS implementation in evaluating assets and liabilities:

- loan loss provisioning;
- effective interest rate;
- deferred tax;
- securities and financial instruments;
- intangible assets;
- start up costs
- functional currency;
- derivatives;
- re-evaluation of the capital;
- historical costs, etc.

The main change could be brought by loan loss provisioning under IFRS that will be the objective of a future SPI Project.

VI. Identification of the impact from the Banks, Auditors and Bank of Albania

SPI Secretariat introduced a short Note on the benefits of implementing IFRS. PWG members recognized the benefits of IFRS implementation in terms of transparency and comparability. Some of the banks are already reporting for their mother-companies under IFRS, therefore the national adoption will be easier for them.

There will be also a fiscal impact on banks as a consequence of the above mentioned changes.

VII. Conclusions and distribution of tasks

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SPI Secretariat will prepare and send the minutes of the meeting and the package of documents, modified according to the today discussions.

SPI Secretariat will gather all individual feedback from the PWG members and make the appropriate revisions on the documents presented.

PMG and SPI Secretariat will prepare the questionnaire for assessing the banks readiness for implementing IFRS.

SPI Secretariat will run the banking survey and will notify all PWG members on the findings.

NAC representative will provide an interpretation of the starting date of the implementation to the PWG, taking into account the result of the banking survey.

PMT supported by SPI Secretariat will have a separate meeting with the NAC in order to discuss in more details the NAC instructions.

VIII. Closing Remarks

Nest Meeting is suggested to take place during the last week of July 2008.

SPI Albania Secretariat

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