IFRS adoption – The progress of implementation process in Albania

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Abstract

IFRS standards developed as an indispensable need to enhance the public confidence and accountability in an era when markets and financial transactions were increasingly overpassing the borders. With the mission to bring uniformity, transparency and effectiveness, these global standards are more and more worldwide required. This paper aims to highlight the importance of International Financial Reporting Standards (IFRSs) providing a follow-up analysis of adopting IFRS dynamics globally and in particular way for the adoption process in Albania. It summarizes the main findings and limitations of the harmonization process and identifies possible improvements in regard.

Keywords: IFRS, information quality, adoption process

1. INTRODUCTION & LITERATURE REVIEW

One of the core challenges to efficiently and successfully operate a business in a global market is to have in place a good and harmonized financial reporting system. In this regard, IFRS has brought many fundamental changes to accounting standards. The main selling point of the IFRS is that it leads to higher quality financial information (Daske & Gebhardt 2006).

High-quality financial information is the lifeblood of capital markets (www.ifrs.org).

Various studies and researches have proven this outcome of IFRS, but primarily at firm level (Daske et al. 2008). In doing business on more and more global environment, accountants and managers should be aware on the financial complexity and need to be updated with the changes in accounting and regulations, which may have significant impact on financial reporting of their global activities.

Several studies provide evidence concerning the impact of IFRS adoption on financial information quality at the country-level (Armstrong 2010).

The number of countries that have adopted IFRS in preparing financial statements has increasingly grown over the last decade. IFRS adoption is accompanied by a broad discussion on the global financial accounting environment and international examples of different accounting practices and on how such as cultural, legal and environmental factors affect accounting at the national level (Prather-Kinsey et al. 2008).
Daske et al. (2008) examine the impact of IFRS adoption in 26 countries on market liquidity, cost of capital and equity valuations; and find an increase in market liquidity and equity valuations, as well as a decrease in cost of capital around the adoption of IFRS.

Daske et al. (2008) find that these capital market effects are stronger in countries that have larger differences between the local GAAP and the IFRS.


Agostino et al. (2011), focusing exclusively on European banks, report that IFRS adoption increases the value relevance of earnings, whereas it reduces the value relevance of book value.

There are numerous cross-country studies of how mandatory IFRS adoption impacts the association between accounting information and equity values. These studies include Devalle et al. (2010), Clarkson et al. (2011), and Agostino, Drago, and Silipo (2011). Including firms listed in Italy, France, U.K., Germany and Spain, Devalle et al. (2010) find that the value relevance of both book value of equity and earnings decreases in Italy and Spain whereas the value relevance of earnings (book value of equity) increases (decreases) in France and Germany. In contrast, both book value and earnings under IFRS are more value relevant than domestic GAAP for U.K. firms.

The practice of countries that have adopted IFRS has shown that the quality of financial information has improved after adoption and that the impact is more dominant in rules-based compared to principles-based ones.

To accomplish the main objectives of accounting in regard to financial reporting, in era of an increasingly global market, implementation and application of IFRSs it is seen as an indispensable, harmonised and complete solution.

METODOLOGY: Cognitive, descriptive and comparative statistical analysis.

2. THE NATURE OF INTERNATIONAL ACCOUNTING

International Accounting is the international aspect of accounting, including such matters as accounting principles and reporting practices in various countries and their classifications, outlines of accounting developments, regional and international harmonization. It refers to the description or comparison of accounting in different countries and the extent of accounting for international transactions.

There are two basic global accounting approaches in setting the standards:

- Principles as a basis: Accounting Standards under this basis have few rules, consist of broad principles and rely on the fact that users use professional judgment in accounting compliance;

- Rules as a basis: In contrast, this approach requires that accounting standards users follow detailed and specific rules in determining the appropriate accounting method.
International accounting includes financial accounting, management accounting, auditing, taxation and management accounting systems. Beyond this overview, external financial reporting is one of the main goals of international accounting.

Last 10 years practices show significant steps of moving or approaching to the achievement of the international standardization objective of accounting practices and standards.

International accounting is the ultimate goal or objective in regard to standards, guidelines and rules issued by international organizations such as the OECD (Organisation for Economic Co-operation and Development) or IFAC\(^1\) (International Federation of Accountants). In this respect, accounting is considered a universal system that needs to be adopted by all countries.

IFAC is comprised of over 175 members and associates in over 130 countries and jurisdictions ([www.ifac.org](http://www.ifac.org), Nov. 2016).

### 2.1 Differences between IFRS & GAAP

Operating in a more and more global environment, it is very important that every company understand the main differences between the IFRS and GAAP.

There is not e clear and complete list of the differences IFRS vs. GAAP. Several examples provide a décor of main differences referring to the impact on the financial statements and consequently on business development.

Extant studies examine the differences between rules-based of accounting standards and principles-based accounting standards (Okamoto 2010). Findings from such studies not only highlight the differences between the two bases, but also address the theoretical contingency that the impact of IFRS adoption on principles-based countries may be less prevalent than rules-based countries due to the fact that the IFRS is a principles-based accounting standard (Agoglia, Doupnik & Tsakumis 2011).

The main differences:

- Conceptual Approach: GAAP in Rules and IFRS in Principles;
- Methodology: GAAP focuses on literature while under IFRS, the focus goes to the facts;
- Consolidation: The IFRS favors a control model, while GAAP prefers a risk-reward model. Certain consolidated entities in accordance with FIN 46 (R) may be disclosed separately under the IFRS;
- Income Statement: Under IFRS, extraordinary items are not allocated to the income statement, whereas, according to GAAP, they are shown below in net income.
- Inventory: Under IFRS, LIFO cannot be used, and according to GAAP, companies have the option to choose between LIFO and FIFO;

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\(^1\) IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the developments of strong international economies. [http://www.ifac.org/about-ifac](http://www.ifac.org/about-ifac)
- Earnings per share: According to IFRS, the earnings per share calculation does not average individual interim periods calculations, and according to GAAP, the combination averages incremental shares in individual interim periods;

- Development Costs: Under IFRS these costs may be capitalized if certain criteria are met, and are considered as "expenses" under GAAP.

Such differences provide an opportunity to study not only whether IFRS adoption improves financial information quality, but also whether the changes are more prevalent when a country switches from rules-based accounting standards to IFRS.

3. **IFRS - (INTERNATIONAL FINANCIAL REPORTING STANDARDS)**

The demand for high-quality financial information has been increased in recent years as a result of financial scandals such as: ENRON & World Com (USA); Renong (Malaysia); HIH Insurance (Australia); etc. The lack of transparency and the low quality of the disclosed financial information have been among the contributing factors of these scandals.

These scandals generated calls for increased transparency and urged the authorities to define ways of encouraging firms to prepare and disclose high-quality financial information.

In 1973, some worldwide professional accounting bodies formed IASC (International Accounting Standards Committee) with the aim to support the international financial reporting system agreeing to adopt International Accounting Standards for cross-border listings (www.ifrs.org).

Formed in 2001, IASB\(^2\), the independent standards setting body of IFRS Foundation, replaced IASC. The IFRS Foundation is unique – it is a privately organized, not-for-profit organization established to serve the public interest (www.ifrs.org).

IASB was formed in 2001 and replaced IASC. The International Accounting Standards Board (IASB) is the IFRS (International Financial Reporting Standards) setting body.

As of July 2012, the IASB consists of 16 members (harmonized participation from all continents) and operates under the legal form of the UK based IFRS Foundation.

The IASB, in regard to IFRS, has four objectives (www.ifrs.org):

1. Develop international accounting standards requiring transparency, comparability and high quality in the financial statements;

2. Encourage international accounting standards;

3. In implementing international accounting standards, take into account the needs of emerging markets;


IFRS Foundation has emphasized that IFRS Standards are created to serve the public interest. In its recently published Mission Statement, IFRS Foundation defines its mission as “to develop

\(^2\) The International Accounting Standards Board is an independent, private-sector body that develops and approves IFRSs, web link [http://www.ifrs.org/about-us/our-structure/](http://www.ifrs.org/about-us/our-structure/).
International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world".  

The IFRS is substantially different compared to previous standards. Arguments in favour of the IFRS include the fact that the adoption of the IFRS improves financial reporting to outside investors; the IFRS is more capital market oriented; and the IFRS is more comprehensive, especially with regard to disclosure, than most local GAAPs (Daske & Gebhardt 2006).  

Publicly accountable companies (those listed on public stock exchanges) and financial institutions are legally required to publish their financial reports in accordance with agreed accounting standards. (www.ifrs.org).  

Applying a common set of standards would have benefits, such as:  

- decrease in the costs of comparing the projections and financial performance of companies between countries;  
- capital markets would be globally more competitive;  
- accurate, comprehensible and timely financial information;  
- more information on the capital market, consequently a lower risk for investors;  
- more disclosure, consequently fewer opportunities for revenue cuts;  
- the elimination of some accounting methods, the use of fair value accounting and the highest level of disclosure, provide more reliable and recoverable financial information, two important features related to the quality of financial information.  

4. IFRS ADOPTION – GLOBAL APPROACH  

European Union (EU) in 2002 adopted legislation that requires listed companies in Europe to apply IFRS in their consolidated financial statements, which came into effect in 2005 and applied in more than 30 countries (including Germany, United Kingdom, France, etc.).  

The increased incorporation of IFRS around the world appears to promote general comparability, particularly in relation to the alternative of comparing financial reports based upon local country accounting standards (SEC, IFRS Work Plan Final Report 2012).  

The jurisdictions mandatorily adopting IFRS or a version thereof include those with varying investor protection regimes. Some have a common law origin (e.g., Australia, U.K.) and others a civil law origin (e.g., Germany, France).  

Both standard-setting bodies, the IASB and the FASB, have initiated a convergence project ahead of IFRS, a project that was actually adopted by many countries.  

Following the IASB's decision to transit to IFRS standards, many IFRS adoption countries realized that IFRS distinctly differs from national accounting standards. As a result of this impact, these countries were required to make substantial changes to their national accounting standards in order to implement international standards and to be consistent with the relevant interpretations of these standards (UN, Report 2008).  

3 For more info, refer to the source: http://www.ifrs.org/about-us/who-we-are/
As mentioned earlier, the strongest point of the IFRS is that it leads to a higher level of financial information quality.

Extant studies, examining developed countries, document an increase in financial information quality after IFRS adoption (e.g., Prather-Kinsey et al. 2008), but most of the studies are performed at firm level.

The effects IFRS adopting can hardly be clearly identified individually, as during this process a number of regulations have simultaneously experienced changes. The effects also vary depending on the fact that a country has used GAAP (Principally Accepted Accounting Principles) before IFRS.

It is also extremely difficult to collect quantitative data from companies applying IFRSs and on costs and benefits.

IFRS Standards are currently required in over 125 jurisdictions and permitted in many more (www.ifrs.org).

Table 1: Analysis of the IFRS jurisdiction profiles

<table>
<thead>
<tr>
<th>Region</th>
<th>Jurisdictions in the region</th>
<th>Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities</th>
<th>Jurisdictions that require IFRS Standards as % of total jurisdictions in the region</th>
<th>Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities</th>
<th>Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>44</td>
<td>43</td>
<td>98%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Africa</td>
<td>23</td>
<td>19</td>
<td>83%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Middle East</td>
<td>13</td>
<td>13</td>
<td>100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Asia-Oceania</td>
<td>33</td>
<td>24</td>
<td>73%</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Americas</td>
<td>37</td>
<td>27</td>
<td>73%</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>150</strong></td>
<td><strong>126</strong></td>
<td><strong>84%</strong></td>
<td><strong>13</strong></td>
<td><strong>11</strong></td>
</tr>
<tr>
<td><strong>As % of 150</strong></td>
<td><strong>100%</strong></td>
<td><strong>84%</strong></td>
<td></td>
<td><strong>9%</strong></td>
<td><strong>7%</strong></td>
</tr>
</tbody>
</table>

Year after year the number of jurisdictions that require or permit IFRS is significantly being increased⁴. Starting with 25 EU countries and some other like Australia, New Zealand, South Africa and Hong Kong in 2005 (20 % of the total 150 jurisdictions), in 2017 the number of jurisdictions that require or permit IFRS reached 138, or 93 % of the total.

Much of this progress is due to the excellent co-operation that exists with national and regional accounting standard-setting bodies around the world (IFRS, Annual Report 2016).

Due to several internal factors, the countries react not the same way to IFRS implementation.

The Association of Chartered Certified Accountant (ACCA, 2011) in its research on how the countries react to IFRS, based on the given prevalence of IFRS, identifies six main ways of responses of implementation of IFRS in a jurisdiction, as:

1. Adopting the IFRS process – the purest form of IFRS implementation, where the regulations in a jurisdiction require companies to use IFRS as issued by the IASB;
2. Inserting IFRS (unchanged in substance) into law;
3. Endorsing IFRS – the response of the EU;
4. Fully converging with IFRS (and intending compliance) – method of Australia;
5. Adapting IFRS – a country can take IFRS as a starting point but then make various changes;
6. Allowing IFRS – a country can permit companies to use IFRS instead of national GAAP.

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⁴ See also annual report of IFRS, link [http://www.ifrs.org/about-us/who-we-are/#annual-reports](http://www.ifrs.org/about-us/who-we-are/#annual-reports)
4.1. Western Balkans – Progress of moving toward FRS

The Western Balkans consists of Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Kosovo and Serbia.

All have a perspective to accede to the European Union and hence are also called “enlargement countries”. These countries are associated to the European Union's Horizon 2020 Framework (www.ec.europa.eu).

“EU membership is vital to enhance the resilience of countries in the Western Balkans” is one of the latest pronouncements EU made in meeting, held in Sept. 2017, with Western Balkan Science Ministers.

The process of EU membership of western Balkan’s countries is associated with fundamental reforms. One of the core reforms in converging with EU is the Economic Reform and associated implementations measures within its context.

The Governments of Western Balkans are committed to bringing their financial reporting framework in line with the international standards (www.ifac.org).

Detailed information of the progress in adopting and implementing IFRS in provided in the below table.

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5 Refer to the article on http://ec.europa.eu/research/iscp/index.cfm?pg=west_balk
<table>
<thead>
<tr>
<th>State</th>
<th>IFRS for SME</th>
<th>Foreign listed companies</th>
<th>Domestic listed companies</th>
<th>Domestic unlisted companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ALBANIA</strong></td>
<td>First time adoption of IFRS – Jan. 2008</td>
<td>The IFRS for SMEs Standard is under consideration</td>
<td>IFRS Standards are required for companies listed on an official stock exchange and their subsidiaries</td>
<td>No stock exchange</td>
</tr>
<tr>
<td><strong>KOSOVO</strong></td>
<td>First time adoption of IFRS – 2001* <em>(UNMIK Regulation 2001/30)</em></td>
<td>Large commercial companies are required to use IFRS Standards. All other SMEs are permitted to use either the IFRS for SMEs or full IFRS Standards.</td>
<td>Required</td>
<td>No stock exchange</td>
</tr>
<tr>
<td><strong>SERBIA</strong></td>
<td>First time adoption of IFRS – 2004</td>
<td>All SMEs are required to use the IFRS for SMEs Standard, with an option for medium-sized entities to use full IFRS Standards.</td>
<td>Required</td>
<td>IFRS Standards are required for listed companies.</td>
</tr>
<tr>
<td><strong>MACEDONIA</strong></td>
<td>First time adoption of IFRS – 2004</td>
<td>Required for some SMEs. Full IFRS Standards are required not only for listed companies and financial institutions but also for large and medium-sized commercial entities, and some others. All others are required to use the IFRS for SMEs.</td>
<td>Required</td>
<td>Required</td>
</tr>
<tr>
<td><strong>MONTENEGRO</strong></td>
<td>First time adoption of IFRS – 2011</td>
<td>No. All legal entities are required to use full IFRS Standards.</td>
<td>Required</td>
<td>Required</td>
</tr>
</tbody>
</table>
4.2. USA transition to IFRS

In October 2002, the FASB and the International Accounting Standards Board (IASB) announced the issuance of a memorandum of understanding ("Norwalk Agreement"), marking a significant step toward formalizing their commitment to the convergence of U.S. and international accounting standards.

In November 2008, SEC (Securities and Exchange Commission) issued its proposed roadmap for adopting IFRS for public companies (SEC, File No. S7-27-08, 2008). This proposal came about a year after the time when SEC released it final rule on accepting from foreign registrants to prepare the financial statements in accordance with IFRS without reconciliation to U.S. GAAP (SEC, File No. S7-13-07, 2007).

These two initiatives revealed the importance of international standards and concluded 30 years of convergence between the two Standards.

In its latest major strategic document (SEC, Strategic Plan, Fiscal Years 2014–2018), the SEC (U.S. Securities and Exchange Commission) states that: “Due to the increasingly global nature of the capital markets the agency will work to promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable”

Now that the United States is clearly moving towards the IFRS, anyone would wonder what the potential impact of the differences between these two frameworks would be in the financial statements and how can financial managers pre-adopt IFRSs in order to minimize last-minute adjustments?

Since 2002, FASB has undertaken the following six key initiatives to further the goal of convergence of U.S. GAAP with IFRS (www.fasb.org)6:

1. Joint projects being conducted with the IASB (Conceptual Framework Project Update, Business Combination Project Update, Revenue Recognition Project Update, Financial Statements Presentation);
2. Short-term convergence project;
3. Liaison IASB members on site at the FASB offices;

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6 See more on Convergence with the IASB: http://www.fasb.org/intl/convergence_iasb.shtml
4. FASB monitoring of IASB projects;
5. The convergence research project and
6. Explicit consideration of convergence potential in all Board agenda decisions.

US, the largest capital market in the world, is still reluctant to fully incorporate IFRS into its financial reporting system, despite the recognition of IFRS on all continents during the last ten years (IFAC, Gobopolsky A. 2015)

4.3. 2017 and Beyond

Under the central theme for IASB work plan of Better Communication for 2017–2021, there are three main elements: Primary Financial Statements project, Disclosure Initiative and the ongoing development of the IFRS Taxonomy – IASB classification system for electronic tagging of IFRS financial statements. The first two cover the content of financial statements and how that content is organised, while the third – the Taxonomy – is about how the content is delivered. The Disclosure Initiative is a portfolio of projects to improve disclosures in financial statements. We have worked on disclosures since 2013, and 2017 will see a couple of key developments, including the publication of the Principles of Disclosure Discussion Paper. This is the first step towards what may become either amendments to IAS 1, the presentation Standard, or an entirely new disclosure Standard. The Discussion Paper seeks stakeholders’ feedback on the Board’s preliminary views on principles governing what, how and where companies should disclose information in the financial statements (IASB, Annual Report 2016)

5. FINANCIAL REPORTING FRAMEWORK IN ALBANIA – ADOPTING IFRS

Until the ‘90s, there was no accounting profession or professional organization in Albania. After the ‘90s, there was a transitional period for the development of the profession of accounting and of the accounting services. For a decade, the accounting as a profession was characterized by spontaneous development (Dhamo, 2012). Individual accountants, still unorganized, provided the accounting services. In 2000, the Albania Institute of Certified Accountants (IKM), an independent professional organization, was created as an indispensable need to regulate the accounting profession in Albania.

Two of the core missions of IKM are associated to IAS/IFRS7:

- Organizing training courses in the areas of National Accounting Standards, IFRSs, auditing, fiscal legislation, business plan design, information technology etc.

- In accordance with the program designed by the Board of Directors each year, the IKM organizes assistance and consultancy for National Accounting Standards (NAS) and International Accounting Standards (IAS) as a whole and for specific standards, provides assistance for problems arising from implementation of the Law "On Accounting and Financial Statements"

Based on the law “On accounting and financial statements”, with the proposal of Minister of Finances with its VKM no. 142, dated 18.03.2005 "On the Mandate of the National Accounting Council", the Council of Ministers decided the mandating of the National Accounting Council.

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7 See more about IKM on: [http://www.ikm.org.al/aboutus](http://www.ikm.org.al/aboutus)
NAC is comprised by 8 members, high professional figures on accounting and economic sciences.

Established as an independent public professional body, having legal personality, the National Accounting Council (NAC) is the Albanian accounting standard setting body.

The main task of NAS is the development of national accounting standards, in compliance with the requirements of the law “On Accounting and Financial Statements” and in coherence with International Accounting Standards (www.kkk.gov.al).

On the setting process of high-quality national accounting standards, the NAC efforts are focused on adoption, implementation and convergence to the IAS/IFRS.

Miti M. (2014) in her research study on “….financial reporting…in Albania”, provides strong evidence that the complete set of National Accounting Standards is a newness in Albania and in full compliance to IAS/IFRS.

In Albania, starting on 1-st January 2008\(^8\) (Ministry of Finance, order no. 65, 2008), as mandatory effective date, the financial statements preparation and presentation is made based on the legal requirements of the Law no. 9228 “On Accounting and Financial Statements”, approved by the Albanian Parliament on April 2004. According to the law, standards compiled by the International Accounting Standards Board and translated into Albanian, under the responsibility of the National Accounting Council, without any changes to the original text in English, are promulgated by the Minister of Finance and are required:

a. Companies listed on an official stock exchange and their subsidiaries, subject to consolidation of accounts;

b. Second-tier banks, financial institutions, similar to banks, insurance companies and reinsurance, securities funds, and all licensed companies to carry out investment activities in securities, even when they are not listed on an official stock exchange;

c. Other large entities\(^9\), not listed on an official stock exchange, when they exceed the limits established by the Council of Ministers on annual incomes and the number of employees (VKM no. 742, 07.11.07)\(^10\).

Units applying this law, except for the cases provided for in the paragraph above, apply the national accounting standards for the compilation and publication of financial statements.

Accounting standards are set by the National Accounting Council (NAC) and within one month are pronounced mandatory for implementation by the Minister of Finance. All entities organize their accounting based on the principles and methods established by the NAC.

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\(^9\) According to the NAC decision no. 2, dt. 27.04.2011, the entities of this category could transit to NAS, if for 2 consecutive years they do not meet the criteria of VKM 742. (annual turnover > All 1.25 Miliard and no. of employees > 100), link web [http://www.kkk.gov.al/foto/uploads/File](http://www.kkk.gov.al/foto/uploads/File)

LISTED COMPANIES

Albania is the only transition economy in southeast Europe without a stock exchange. An entity called the Tirana Stock Exchange\(^{11}\) was established in 1996 as part of the Central Bank of Albania. The stock exchange in Albania but never became fully operational, consequently no listed company.

BANKING AND INSURANCE SECTOR

European Central Bank, International Association of Insurance Supervisors, World Bank and Basel Committee on Banking Supervision, all are members of the IFRS Advisory Council and all their efforts are under way to bring the banking and insurance sector into full compliance with IFRS. BoA and AMF, the local banking and insurance regulatory bodies, are significantly supporting this process.

Two tier banking system is created in 1992. The Bank of Albania is the central bank of the Republic of Albania.

Banking system’s capital structure dominated by foreign capital (BoA, Supervision Annual Report, 2016, p 28):

- 88.5% of paid-in capital of the banking system is of foreign origin, out of which
  - 65.4 % of EU origin

Banks and other financial institutions supervised by Bank of Albania (BoA, Supervision Annual Report, 2016):

- 16 banks (No state owned banks. Two banks with predominantly local capital)
- 28 non-bank financial institutions
- 2 unions of SLA-s
- 13 SLA-s
- 428 foreign-exchange bureaus

Reporting of banks to the central bank is based on a “local reporting methodology” – based mostly on 1998 IFRS. The local reporting methodology is continuously updated aiming approximation to best supervisory standards and to the latest IFRS version (BoA, Banka, 2014).

The below completive table on the Albanian banking system approach to adaption to IFRS, provide evidence that loan provisions still keep local treatment.

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\(^{11}\) Tirana Stock Exchange (TSE) is the only organized securities market in Albania. Established in 2002 in the form of joint stock Company, TSE is licensed by the Financial Supervision Authority to conduct operations as securities market of government debt, corporate debt and shares in Albania. [https://www.tse.com.al/](https://www.tse.com.al/)
Table 3: **Albanian regulatory provision approach** (banking sector)

<table>
<thead>
<tr>
<th>No</th>
<th>Items</th>
<th>Moving to IFRS</th>
<th>Keeping treatment</th>
<th>local</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan provisions</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Treatment of available for sale assets</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Treatment of shareholder’s capital</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Accrued interests for NPL-s</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Fees and commissions</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank of Albania, Indrit Banka, 2014, Albanian approach to adaption to IFRS for loan loss provisions

The Albanian Financial Supervisory Authority (AFSA) established in 2006, is a public independent institution responsible for the regulation and supervision of non-banking financial system and the operators of the sector\(^\text{12}\) ([www.amf.gov.al](http://www.amf.gov.al)).

The main areas of AFSA activity is regulation and supervision of ([www.amf.gov.al](http://www.amf.gov.al)):

- 12 insurance operators;
- 19 securities market operators;
- 3 of voluntary pension funds market and its operators;
- 3 of other non-banking financial activities;
- Numerous individual brokers / agents / advisors.

\(^\text{12}\) Se also [http://www.amf.gov.al/pershkrim.asp?id=1](http://www.amf.gov.al/pershkrim.asp?id=1)
LARGE ENTITIES

There is no published official list of companies or any other general statistical information related the number of the companies for which IFRS is required.

Monitor, the well-known Albanian magazine of economy (www.monitor.al), every year performs an individual research related the big 200, according their annual turnover as declared at the tax office. According to reported list of its recent editorials, the number of companies which annual turnover exceeds the turnover limit set by the Council of Ministers is:

- 199 for 2015
- 199\(^{13}\) for 2016

As there is no source of information in regard to the number of employees respectively for each company (which annual turnover exceed the limit set), it cannot be assumed that the number of companies for which IFRS is required could be the same number as in the previous paragraph.

The only published official data, in regard to the number of employees per sector, is that provided by INSTAT\(^ {14}\). In the last report over the business registry (2016), INSTAT presents that 1’690\(^ {15}\) private entities out of total 160’679 have more than 50 employees in their org chart. The information is synthetic and there is no analytical list of these entities to consolidate it with the list of the 199 companies that accomplish the other requirement, the one of the turnover level (previous paragraph).

IFRS ADOPTION TIMELINE

The IFRS Foundation has announced the availability of Albanian translations of the International Financial Reporting Standards 2016 (the "Red Book") together with a number of new and revised standards issued by the IASB in English from 2011 to date.

Table 4 provide detailed timeline of IFRS implementation and adoption in Albania starting 2008 to date.

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\(^{13}\) Almost all banks and insurance companies are part of this list.

\(^{14}\) The statistical service in Republic of Albania is realized by: The Institute of Statistics (INSTAT); Local statistics departments, ministries or other central institutions statistics departments; civil offices and other subjects. See also http://www.instat.gov.al/en/about-us/

\(^{15}\) http://www.instat.gov.al/media/1830/registri_ndermarrjeve_2016-1.pdf
Table 4: **IFRS Adoption timeline** (amendments included):

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>ISSUED DATE (IASB)</th>
<th>EFFECTIVE DATE (EU)</th>
<th>APPROVED DATE (NAC &amp; MINISTRY OF FINANCE)</th>
<th>EFFECTIVE DATE (ALBANIA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 8: Operating Segments</td>
<td>2006*</td>
<td>01 Jan. 2009</td>
<td>Not adopted</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>---------</td>
<td>----------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td>IFRS 17: Insurance Contracts (replace IFRS 4)</td>
<td>2017*</td>
<td>01 Jan. 2021</td>
<td>Not adopted yet</td>
<td>Under consideration</td>
</tr>
<tr>
<td>IFRS for SME-s</td>
<td>2009</td>
<td>2009</td>
<td>Under consideration</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

Symbol “*” at the column 2 & 4 refers to the issue date / first adoption of the original version of IFRS

Symbol “**” at the column 5 refers to the effective date of the first version of IFRS adopted.


The Albanian Council of Ministers, with it decision no. 172, Feb. 2009, approved the “The Policy Document and Action Plan for Improvement of Financial Reporting in Albania”¹⁶ which determined the three pillars on which the work would be supported for the Reform in Albania.

1. Improvement of the Institutional Framework;
2. Institutional Capacity Consolidation;
3. Awareness of Financial Reporting and Auditing

This document is the most complete and comprehensive framework in regard to the reform of improving the financial reporting in Albania. It provides clear objectives and detailed action plans to building up a rigorous implementation system in order to enhance the quality of financial reporting in Albania.

6. CONCLUSIONS AND RECOMMENDATIONS

There are long-established laws and regulations governing financial reporting in Albania, including: tax law, regulatory and supervisory frameworks, law on commercial entities, law on accounting and auditing, various sector specific regulations. Introduction of a new reporting system or amendments to the existing ones requires robust coordination, close interaction,

uniformity and consistency in regard to each other.

The national accounting standards and the legal framework of accounting, in order to fully converge to IAS/IFRS, requires, not only a strong and capable National Accounting Council, but as well significant contribution, consultation and processing through all potential contributing authoritative bodies, such as:

**Council of Ministers** – All the efforts made in regard to IFRS adoption are of valuable contribution. One of the critical elements in the implementation of IFRS is the rigorous enforcement of standards; consequently an Enforcement and Supervision Body could be established to strengthen the enforcement activities for the implementation of the IFRS at national level. Once enforced, activities should be followed up and supported.

**Tax Structure** – is one the main users of financial statements. In Albania, the tax law regulates the accounting standards and financial reporting for tax effect. Tax Structure can contribute raising the requirements for the implementation of IAS/IFRS to the taxpayers’ economic units. IFRS – based financial statements could be also required for tax purposes as well.

**Bank of Albania** – Banking Accounting Manual and the requirements of the regulatory and supervisory framework need to be adjusted to IFRS (ex. it can develop the regulatory provision with IFRS requirements).

**Financial Supervisory Authority** – Several changes need to be made to the legislation on insurance and other rules related capital market in accordance to IFRS.

**National Centre of Business** – Filing and publication of information, for sure would result of significant contribution on enhancing disclosure in accordance to IFRS.

**Professional bodies** – It is necessary that professional bodies, standard-setters and prepares enhance the interactions between each other in regard to the implementation process of IFRS. Effectiveness of the interacted mechanism will lead for sure to more rapid process of IFRS adoption.

The adoption of IFRS in order to ensure that the financial statements are prepared, interpreted and audited correctly, requires trained staff and additional education of accountants, auditors, tax officers, users, etc.. Professional bodies would provide a fundamental contribution in this regard.

**Universities** – Progress and developments start right from the appropriate education process. Universities are the ground source of future professionals. The adjusted curricula designed in accordance with the requirements of International Organizations of the professions would increase the quality and capabilities of future accounting and auditing experts.

**Business Associations** - Due to the wide impact of the transition to IFRS, companies need to put in place a scalable training plan on IFRS, not limited to the accounting department. Education and training for the finance function should be the first port of call. Accounting firms could play an essential role in explaining the application of IFRS and assisting companies in this new approach.

**Stock Exchange** – An active stock exchange is a concrete and clear indication of the maturity level of the financial market. Implementing IFRS and activating stock Exchange could parallely contribute to increase the need to formalize and certify the capital as well enhance disclosure of financial statements.
Ensuring high-quality and reliable financial information in the decision-making process is of fundamental importance to the economic, social and financial development of a country. Timely and consistent application of IFRS is, and will be, challenging for Albania. The significant joint efforts of all the players in the financial reporting chain will be needed to ensure a successful implementation of these Standards.

REFERENCES


Deloitte, Tousche Tohmatsu, IFRS in your pocket, http://www.iiasplus.com


International Accounting Standards Board, Publication Department, www.ifrs.org


