

Translating IASs/IFRSs

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This session begins with a look at the translations of the standards, and the processes and procedures now in the process of being introduced to cope with the requirements of simultaneously translating standards and other guidance into the EU official languages. In the second part, I'll discuss some of the issues and problems we have encountered translating IAS-related material, and outline some solutions.

I'll start with quote from a speech by former SEC Chairman Arthur Levitt in October 1999:

"Financial reporting is a language, just like German or English. It is the language that companies use to talk to investors. It is the language that investors use to ascertain value. It is what people use everyday to decide where to invest their hard earned dollars for financial security and future opportunity. These decisions can be hard enough. But try it in a language you don't understand, and it becomes all but impossible. Even worse, misleading."

History of IAS translations

The IASs have now been translated into more than three dozen languages. In addition to the EU languages, these include the following:

- ◆ Albanian - in progress
- ◆ Arabic - 2002 with the publisher at the moment
- ◆ Bulgarian - they've been adopted as law by the government, and the IASCF expects to finalise a commercial publishing agreement for 2003 or 2004
- ◆ Catalan - old translation by Andorra was never properly published, but it does exist
- ◆ Chinese (simplified) - 2001 is the most recent version available. There have been big changes in the Ministry, and the IASCF doesn't expect the next translation to be this year, but is confident for next year
- ◆ Croatian - an older translation exists, but the standards are being adopted as law
- ◆ Czech - there has been an official translation for the last 3 years, and the 2003 edition is expected in September
- ◆ Estonian - a 2003 translation will be out later in the year
- ◆ Hungarian - the 2003 translation will be published in early November
- ◆ Icelandic - a translation of the core standards (bare, numbered text) will be published towards the end of 2003
- ◆ Japanese - a 2001 version is commercially available, the next to be published will be the 2004
- ◆ Kazakh - expected in 2004; the standards have been adopted as law by Kazakhstan
- ◆ Kirghiz - the standards have been adopted as law by Kyrgyzstan, so far they've been using the Russian translation, but the IASCF has just approached for a Kirghiz translation as well
- ◆ Latvian - an older (2000 or 2001) translation exists, the 2003 will be published later in the year

- ◆ Lithuanian - an older (2000 or 2001) translation exists, the 2003 will be published later in the year
- ◆ Macedonian - the last translation was in 2000, the 2003 will be published later in the year
- ◆ Mongolian - IASCF received has requests for a non-official translation.
- ◆ Norwegian - the 2003 translation will be published later in the year
- ◆ Polish - the 2003 translation will be published later in the year
- ◆ Portuguese - a 2001 Brazilian Portuguese translation is available, and this was used as the basis for the “Continental Portuguese” EU version.
- ◆ Romanian - there has been an official translation every year for the past 3 years, the 2003 version will be published later this year
- ◆ Russian - the standards will be adopted as law from 2005 onwards, the 2003 edition will be published towards the end of the year
- ◆ Serbian - the standards have been adopted as law, the IASCF is discussing the 2003 commercial edition at the moment
- ◆ Slovak - there has been an official translation for the past 3 years, the 2003 edition is expected in a couple of months
- ◆ Slovenian - the most recent edition was a 2002 loose-leaf format. The IASCF is discussing the 2003 commercial edition now.
- ◆ Spanish - a “South American” Spanish version is available. This was also used as the basis for the "Iberian Spanish" text for the EU needs alone
- ◆ Turkish - the IASCF is discussing the 2003 edition at the moment
- ◆ Vietnamese - Vietnam’s own accounting standards are based on IFRSs (the same applies to Malaysia, Sri Lanka and several other countries in the region)

Government or other public assistance, for example EU grants, have been made available for many of these translations, including a number of the EU languages. Alternatively, the translations themselves have been directly funded or even undertaken by public-sector bodies. One of the few languages that this does not apply to is, unfortunately, German, where the government has shown no interest whatsoever in contributing to the production of first-class translations. Although German governments have in the past frequently called for greater prominence to be attached to the German language, in particular at EU level, there is evidently an extreme reluctance to do no more than squawk loudly about the alleged underweighting given to German compared with other major European languages. In much the same way, the German government insists on retaining statutory responsibility for accounting standards, but expects private organisations to actually fund their development.

Despite that, the first official translation of the IASs was into German. If you look at the translation credits for this first bound volume, you will see several dozen names, including many of Germany’s top accountants and accounting academics. In turn, they were assisted by a large number of junior accountants, academic researchers and doctoral students. This first German translation caused a bit of a stir, due above all to terminology issues that I’ll come to later in this presentation.

IAS Regulation and translation of core standards

The EU’s decision to required listed public companies to prepare their consolidated financial statements using IASs from 2005 created an urgent legal requirement for the text of the standards to be available in all the languages of the EU Member States, i.e. Danish, Dutch, Finnish, French, German, Greek, Italian, Portuguese, Spanish and

Swedish. As with most official documents, the Irish government waived a translation into Irish Gaelic.

The IASCF then commissioned translations into those official languages for which no IAS texts were yet available, and launched a process of updating, harmonisation and terminological consistency for those languages where the IASs had already been translated. Although the translations were originally supposed to be ready by the end of 2002, the Commission only signed the contract with the IASCF in early January 2003. The final translations of these “core standards” were delivered to the European Commission in April this year. Although originally slated for publication in the Official Journal in June this year, the publication date has been delayed several times, and it now looks likely that they’ll be published officially either this month or in October.

The “core standards” are those elements of the IASs that have been officially adopted by the EU, and include the Framework, Standards and Interpretations. They do not include any basis for conclusions or implementation guidance, and therefore represent somewhere in the region of 70% of the content of the bound volume.

There is a general consensus that the “best” of these translations are those that were essentially done from scratch, with Finnish a prominent example. The German translation proved to be particularly problematic. The primary reason for this was the terminological inconsistencies that had crept in over the years. We hope that this problem has now been more or less eliminated, but unfortunately we occasionally come across a term that should have been changed to bring it line with current practice. Ultimately, given such a large and constantly changing body of knowledge, it may take some time before all legacy terminology problems are appropriately addressed.

A quick word about the non-core text. Up to now, bases for conclusions and implementation guidance have not be translated. Starting with IFRS 1, however, the IASCF has changed its policy and now wants the basis for conclusions and any implementation guidance to be translated. Existing, untranslated, bases for conclusions will be translated retrospectively, but not past implementation guidance, in particular the IAS 39 Q&A. The non-core text also includes elements such as the preface to the standards and the IFRIC preface.

New translation workflow

The need to produce simultaneous translations into multiple languages has prompted the IASCF to establish defined procedures, workflows and structures to cope with the new language environment. These structures differ from language to language, depending on local resources and requirements, and what I’ll now describe applies in particular to the German translations. There are now four main human resource elements in the translation process:

1. The IASCF’s project managers
2. The Coordinators appointed by the IASCF. I am the Coordinator primarily responsible for overseeing workflows and deadline adherence, while Liesel Knorr, Secretary General of the DRSC/GASC, is primarily responsible for content-related coordination. However, I do also assist her in that area.
3. Freelance translators engaged by the IASCF. In future, these translators will first be vetted by the Coordinators before any contract is signed.
4. A Review Committee consisting of 12 or more members, primarily senior practising accountants and prominent academics from Germany, Austria and Switzerland, as well as the Austrian member of the ARC.

The historical translation and review process saw German Review Committee members spending an unreasonable amount of time and effort to bring the translations up to a standard that can generally be termed “publication quality”. In addition, the legacy workflow essentially involved a straight-through linear process with little scope for feedback or continuous improvement, and tended to define the translation sub-process itself as a black box activity.

There is now an understanding that terminology quality is the absolute key to translation quality. That is why this revised workflow introduces a new component – the extraction of relevant source-language terminology, the submission of proposed target-language terminology by the translator, and its review and/or amendment by the Review Committee member(s) responsible. Although this step might appear to make the process more complex, it actually streamlines the process and aims to drastically cut the overall time to complete the translation. In particular, the time required by the Review Committee members should fall substantially. Although they will have to spend time reviewing/revising the terminology, this will be more than offset by the reduced time required to review the finished translation. Experience shows that for every two hours spent on terminology work, both the translation and the review processes can be cut by at least double that amount, and often much more. Such a procedure also ensures compliance with the established QM principle of “getting it right first time”.

Translating IAS-related documents

When we translate IAS material, there are two major problems we face: terminology and resources, and I’ll deal with them in that order.

As I said before, the original German translation of the 1997 Bound Volume raised more than a few eyebrows in Germany. Firstly, there was criticism that the translation was too close to the original. The response – I think quite justified – to this was that firstly it was vital to have a translation that could be read alongside the original, because at the time, the English version of the standards was the sole authoritative version. This has now changed, of course, in the EU, where all language versions carry equal authority. The second point was that this was a translation of standards, not of literature, and standards have their own style and usage that may appear unfamiliar to those who aren’t used to working with standards.

Secondly, there was a problem with the terminology used in the IAS translation. Those involved in the translation decided that to make absolutely clear the distinction between the IASs and German accounting principles, a new German “language” of accounting was necessary, in part to deal with the completely new and “alien” accounting concepts that were being introduced via the IASs. One excellent example of this is the use of the term “Schuld” for liability, rather than the normal German term “Verbindlichkeit”. Schuld normally means “debt”, and it’s probably helpful to understand that in Germany, the term “Schuld” has a highly negative connotation. In the past, many clients have shuddered when we used the term “debt” quite legitimately in our translations, and ask us if we can’t use something that’s less intrusive on their sensitivities. It’s difficult for them to understand that in English financial language, “debt” is a perfectly normal word without negative connotations.

The upshot of these terminology innovations is that they are rarely used in practice by preparers. If you turn to the handouts, you’ll see just a few examples of the sort of terms that appear in German IAS balance sheets. It is worth noting that these terms that are actually used in practice are almost invariably the traditional HGB German, i.e. the

established German terms used in what might be styled as “German GAAP”. Very often, preparers stick so rigidly to the German GAAP classifications and terminology that it is almost impossible to tell at a glance whether the financial statements concerned are HGB or IAS.

Another term that gives us as translators a big headache is “fair value”. The official German IAS term for what is a completely innovative concept in German accounting is “beizulegender Zeitwert”, which was chosen because it didn’t clash with other German terms, for example simply “Zeitwert”, which can mean a number of things depending on context, for example “current value”.

Unfortunately though, most German preparers use “Marktwert” when they mean fair value. In many cases, of course, the market price is the fair value, but there are also instances when this does not hold true. The upshot is such constructions as “Der Marktwert von Finanzinstrumenten, für die kein aktiver Markt besteht” (literally “the market value of financial instruments for which there is no active market”), which is, of course, faintly absurd. So as translators, we have to know when Marktwert is being used in the sense of “market price”, and when it means fair value.

Another tendency in German practice is to use Anglicisms, in particular for the classes of financial instruments: held to maturity, available for sale and held for trading. There are perfectly good German terms for these, but many preparers evidently think it’s cool to use the English terms here.

Resources

I’ll now take a brief look at the resources that are available to us as translators. Curiously enough, I’d say that English-to-German translators probably fare better than we German-to-English translators. The main reason for this is the dearth of high-quality original English financial reports that we can use as a basis for our translations. This will change in 2005, of course, with the advent of British, Irish, Australian and New Zealand IAS financial reports, but until then, we have to make do with other, more indirect sources.

The most important resource is, of course, the standards themselves, as published in the English and German bound volumes. The English version is also available on subscription on a CD-ROM.

The IASB website is at: www.iasb.org.uk

As far as secondary literature is concerned, there is a growing number of reference works available in English, and in particular German, covering the IASs and their implementation. Essential German works include:

- ◆ Coenenberg; Jahresabschluß und Jahresabschlußanalyse – Betriebswirtschaftliche, handelsrechtliche, steuerrechtliche und internationale Grundsätze; 18. Auflage, verlag moderne industrie 2001, ISBN 3-478-39702-2

New edition just published.

- ◆ Hayn, Waldersee; IAS/US-GAAP/HGB im Vergleich, Synoptische Darstellung für den Einzel- und Konzernabschluß; Schäffer-Poeschel 2000, ISBN 3-7910-1566-4

New edition appearing next month.

- ◆ KPMG (Hrsg.); International Financial Reporting Standards – Eine Einführung in die Rechnungslegung nach den Grundsätzen des IASB; Schäffer-Poeschel 2003, 3-7910-2082-X

Just published.

- ◆ Baetge, Dörner, Kleekämper, Wollmert, Kirsch (Hrsg.); Rechnungslegung nach International Accounting Standards (IAS), Kommentar auf der Grundlage des deutsche Bilanzrechts, 2. Auflage; Schäffer-Poeschel 2002; ISBN 3-7910-2401-7
- ◆ Paul Scharpf, Ernst & Young; Rechnungslegung von Financial Instruments nach IAS 39; Schäffer-Poeschel 2001, ISBN 3790119767

And there are literally dozens of other reference works, though I think these are probably the best. In English, there are several reasonably useful books, mainly from the Big Four, but none of them consider the application of IASs in other European countries.

The other main source of reference works is the Web. All the Big Four audit firms – PwC, KPMG, E&Y and DTT – have IAS websites, with DTT and PwC’s sites by far the best.

The DTT site is called “IASPlus”, and is streets ahead of all the others: www.iasplus.com. In addition to IAS-related news updated daily, it features a host of really downloads, including:

Model financial statements and disclosure checklists in English and German. The German version is still 2001 year-end only, but an updated version is promised by the end of this year. There’s a PDF version of DTT’s popular Practical Guide to the IFRSs, plus their abbreviated “IFRS in your Pocket” in English, French, Polish, Spanish and Finnish. There is guidance on financial instruments accounting, and transition guidance in Danish. There’s a guide to differences between IASs, US GAAP and local GAAP in such languages as Spanish and Chinese, and a whole load of other useful publications. IASPlus is definitely the website to visit every day. There are also local Spanish and Chinese versions of IASPlus.

PwC’s Global Corporate Reporting website at: www.pwcglobal.com/ifrs also features many useful downloads, including illustrative financial statements, as well as a comprehensive online guide to the standards, and documents comparing the IASs with a number of local GAAPs. All the material is in English, though.

KPMG’s IAS website at: ias/kpmg.com is less well stocked with “goodies”, but their series of “IFRS compared with US GAAP and...” is extremely useful, including volumes on each EU national GAAP. I’ve enclosed a summary of the German GAAP version in the handouts.

Ernst & Young’s model IFRS financial statements are very good. They’re available online, or combined with a disclosure checklist in print form from the IASB’s website. Also worth downloading from E&Y’s US site are several publications on financial instruments accounting, primarily US GAAP, but also extremely useful for IAS 32 and 39.

Of course, the national websites of the Big Four, as well as the websites of the larger local accounting firms, often have very useful materials on IASs in the local language.

Armed with these publicly available resources, we can at least produce high-quality, accurate translations of German IAS material. Of course, the Big Four also produce many internal guidance documents for their own accountants and their clients, so if you’re lucky enough to have access to one or more of your local Big Four offices, you’ll be able to double the number of resources at your fingertips.