INTERNATIONELLA HANDELSHÖGSKOLAN
HÖGSKOLAN I JÖNKÖPING

Swedbanks implementeringsprocess av IFRS

Filosofie kandidatuppsats inom redovisning

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Swedbank's implementation process of IFRSs

Bachelor's thesis within accounting

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Sammanfattning

Bakgrund: En ökad handel över nationsgränserna har skapat en efterfrågan på ett internationellt redovisningsspråk. IASB har därför skapat ett set med högkvalitativa internationella redovisningsstandarder. Från och med 2005 kräver EU att alla företag som är listade på en reglerad marknad inom EU ska använda sig av IASBs standarder IFRS.

Problem: Genomförandet av implementeringen av IFRS är olika i olika företag. Vi vill därför undersöka hur implementeringsprocessen var genomförd i Sveriges största bank, Swedbank.

Syfte: Syftet med den här rapporten är att beskriva samt förklara hur förändringen till IFRS genomfördes i Swedbank samt att beskriva de eventuella problem och hinder som implementeringen av dessa standarder kan ha medfört.

Metod: Vi har valt att göra en fallstudie genom att intervjua anställda i Swedbank som har varit delaktiga i implementeringsprocessen. Vi har också intervjuat Deloitte för att få deras syn på en implementeringsprocess av IFRS.

Analys: Vår analys är baserad på empirisk data i jämförelse med ett teoretiskt underlag. Vad vi har kommit fram till är att Swedbank har inkluderat de flesta av de steg som tas upp i teorin angående en implementering av IFRS; de har förberett sig bra samt använt rätt resurser. De har dock avvikit genom att inte utvärdera processen när den var klar.

Slutsats: Swedbank satte ihop en central projekt grupp som skötte implementeringen. De identifierade de ändringar som skulle göras och genomförde dessa. De problem som uppstod i processen har sitt ursprung i FVO och IAS 39.

Bachelor's Thesis in accounting

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Subject terms: IAS 39, IFRS, IAS, Fair Value Option, Implementation process, Swedbank

Abstract

Background: An increase in cross-border trade has created a need for a common international accounting language. IASB therefore created a single set of high quality international accounting standards. As of 2005 all companies listed on a regulated market within the EU are mandated to use IASB's standard IFRSs.

Problem: The process of implementing IFRS is different in different companies. We therefore want to look at the implementation process in Swedbank, the largest bank in Sweden.

Purpose: The purpose of this study is to describe and explain how the process of the change to IFRSs was done within Swedbank and to outline the problems and obstacles that might have occurred when implementing these new standards.

Method: We have done a case study by interviewing people in Swedbank that took part in the implementation process. We have also done an interview with Deloitte to get their views on a IFRSs implementation process.

Analysis: Our analysis is based on our empirical findings in comparison with our theoretical framework. We found that Swedbank did most of the steps described in the theoretical framework regarding the implementation process; they prepared themselves well and choose the right resources to do so. The deviating step is that no evaluation was done afterwards.

Conclusion: Swedbank used a project group to handle the implementation process. They identified the changes that had to be done and did the change to IFRS. The problems and obstacles that occurred were due to FVO and IAS 39.

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1 Introduction

This chapter will describe the general issues of the implementation process of the International Financial Reporting Standards (IFRSs). We will then discuss the problem and the purpose of the paper. We will also describe the scope and delimitations, and finally an outline of the paper is presented.

1.1 Background

The cross-border trade and business have increased at a high rate and investor's are no longer limited by their geographical location (Jacob & Madu, 2004). Therefore there has been a cry out from the business community for an international accounting language and in 1973 the International Accounting Standards Committee (IASC) was created (Jacob & Madu, 2004; Taylor, 2003). The committee was an arrangement of accounting organisations from ten different countries and their objective was to create accounting standards that could be used globally and hence improve the harmonisation of accounting procedures used when presenting financial information (Jacob & Madu, 2004).

The increased cross-boarder finances had forced companies to not only follow the local General Accepted Accounting Principles (GAAP) in the nation where they were seated but also to follow the local GAAP in the nation(s) in which they had invested. An international set of standards were needed in order to ease the international financial trade (Taylor, 2003). As a result, IASC released 41 International Accounting Standards (IASs) between 1973 and 2001. These standards did not become a success mostly because they included many different options and also because they were ignored by many of the bigger standard-setting countries such as the USA. Problems arose when multinational companies had to prepare multiple sets of financial reports to satisfy all the different needs of their clients. Hence, this made it difficult to draw comparisons of companies across borders. A challenge was posed to IASC by the International Organisation for Securities and Exchange Commissions (IOSCO) to review and change the standards as well as take away all the different options in order to create an acceptable international accounting standard. In the end this led to the creation of a new board and a new structure for developing and creating new standards (Kirk, 2005). This structural change took place in 2000 as IASC was reorganised into the International Accounting Standards Board (IASB). The board with its base in London began its work in 2001 and alone has the responsibility to further develop the old IASs and create new standards that from 2001 will be referred to as the International Financial Reporting Standards (IFRSs) (Epstein, 2006; Kirk, 2005). These new IFRSs is effective from 1st of January 2005 and applies to companies listed on a regulated market in the transitioning countries and will be used by no less than 90 countries including the member states of the EU with its almost 9000 listed companies (Tweedie, 2004; Jermakowicz & Gornik-Tomaszewski, 2006).

The goal of the IASB is to create a single set of high quality global accounting standards, so that the information provided in the financial reports is transparent and comparable (International Accounting Standards Board, 2006). This improved comparability and consistency will provide opportunities for investors to diversify their capital and it should also enable both emerging and developing economies to attract capital across borders (Tweedie, 2004). The aim of the IASB is to be internationally accepted and to work towards harmonising the international markets (Nilsson, 2005). In order to achieve its goal the IASB co-operates with national standard-setters to create a merge of the different standards around the world (International Accounting Standards Board, 2006).

When the European Union mandated the member states to use the IFRSs for their listed companies it was a major step that moved us closer to a set of global accounting standards (Jacob & Madu, 2004). With these new standards the EU wanted to create and facilitate a more accurate and comparable accounting system within the union, and by requiring the listed companies in the member states to prepare consolidated accounting reports according to the new standards their aim is to create a better functioning internal market and integrating the capital markets in Europe (Internationella redovisningsnormer (IAS), 2006).

1.2 Problem discussion

The process of a change in accounting procedures in a company depends highly on the company's circumstances, for example its context and history. Other factors that influence the process are external forces such as governments, other regulatory bodies and professional accounting bodies (Scapens & Burns, 2000).

When the new IFRSs became effective on 1st of January 2005 all the companies that were going to prepare their consolidated accounting reports according to these new standards needed to change their accounting procedures. The change in accounting procedures to the IFRSs requires thorough planning and is a demanding process that is both time consuming and requires a lot of resources. It is therefore important that the implementation process is not underestimated by the converting companies (Rippe, 2001).

Many of the countries within the EU think that there will not be any greater difficulties when implementing the IFRSs since they believe their local GAAP is more or less consistent with the IASs. But although their local accounting rules are similar to the IASs the new standards are under continuous change which will lead to high requirements on the competencies within the companies as well as the accountants who are responsible for reviewing the annual reports of the transitioning companies (Rippe, 2001).

It is possible to divide the countries in the EU into two separate groups. The first group is countries that have GAAP that is not as developed or that are able to adapt quickly to international rules and standards. Sweden belongs to this group. The countries within this group have a tendency to take the implementation process a bit too simply and the problem is that they are lulled into a false sense of security that everything they do is already consistent with the IASs and they do not put enough emphasis on implementing the new standards. Therefore it is vitally important that the companies within these countries start the implementation process early since it is a very time consuming process. It requires huge internal resources together with external consultants such as accountants. The second group is countries that has a highly developed local GAAP and/or takes a longer time to adapt to new standards and rules. Examples of countries belonging to this group are Germany and United Kingdom (Rippe, 2001).

Changes in accounting standards which either alters or increases disclosures or require corporations to change accounting methods will increase the company's bookkeeping costs. These costs also include any necessary increases in the payment for accountants to compensate for additional training (Watts & Zimmerman, 1979). This has been confirmed by a study that investigated the consequences from the implementation of the IFRSs in nine Swedish companies. They found that the economic consequences from the implementation was firstly costs from education and auditing services but also the extra workload and time spent for the companies involved. Further the biggest differences before the change in accounting procedures and after was that the companies now had to use market value instead of acquisition value for a certain numbers of transactions and that goodwill no longer could be depreciated (Bergström & Wetterholm, 2005).

A study by Bednarek and Olenska (2006) investigated the potential problems from the implementation of the IFRSs in two Swedish parent companies (SCANIA and NIBE Industrier) and their Polish subsidiaries and found that there were no significant problems due to the implementation. They found that this was so because both the Swedish and the Polish companies were well prepared for the change. They also concluded that there was no resistance or conflicts from the companies when changing to these new standards. On the other hand they add that the accountants had experienced complications for the Polish subsidiaries because they needed to follow three different accounting regulations which ultimately could lead to differences in the financial reports.

What we have found to be interesting to investigate with this discussion as a background is how the implementation process of the IFRSs was done in the leading bank in Sweden, Swedbank. As can be seen from previous studies there are no predetermined way to implement the IFRSs and the outcome seems to be different. If we would be able to predict the outcome from this implementation process as well as determine how it is done in a company this investigation would not provide anything new. The reason why we wanted to look at the process in Swedbank is because many of the previous studies and articles such as the one by Bednarek and Olenska (2006) are mainly done in the manufacturing industry and very little studies are done in the financial industry. Swedbank is not only the leading bank in Sweden but also in Estonia, Latvia and Lithuania. And outside these markets they also operate in Denmark, Finland, Norway, Western Russia, Luxembourg, US, China and Japan. Swedbank offers a full range of financial services to private individuals, corporations and organisations (Föreningssparbanken Annual Report, 2005).

1.3 Problem statement

With this study we are trying to answer the following questions:

- How was the process of the change in accounting procedures to the IFRSs done in Swedbank?
- Did any problems or obstacles occur when implementing the IFRSs in Swedbank and what were these?

1.4 Purpose

The purpose of this study is to describe and explain how the process of the change to the IFRSs was done within Swedbank and to outline the problems and obstacles that might have occurred when implementing these new standards.

1.5 Delimitations

The process of the change to the IFRSs can vary a lot depending on what company one chose to analyse and that company's particular circumstances. With this study we are only going to describe and explain the process of the change to the IFRSs in one company, Swedbank. We are only investigating Swedbank in Sweden and not any of their subsidiaries in other countries. We are going to look at the whole process of changing the accounting procedures to the IFRSs and are therefore not looking at any of the particular standards on its own.

1.6 Definitions and abbreviations

We will here explain some of the more financial terms used in this thesis. First will be some definitions on certain terms used and secondly the abbreviations used throughout the thesis.

Fair Value Option (FVO) allows companies to measure any financial asset or financial liability to fair value, at the time of its acquisition or issuance, and the value changes are recognised in profit or loss. Once an instrument has been valued to fair value it can not be reclassified out. (Standards: IAS 39, 2007).

IAS 39: Recognition and measurement is a major part of this thesis. This is a very complex standard of IFRSs and in appendix 4 we will give a summary of the parts of this standard that is relevant to this thesis. We can however due to the complexity of IAS 39 not give the full description of the standard since it would be over 50 pages.

A derivative is a financial instrument whose price is derived from an underlying financial security (Buckle & Thompson, 2004, p 246). They are used as financial management tools in order to enhance returns on investments and to manage risks (B. S. Kaliski, 2001).

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (Standards: IAS 39, 2007).

Hedging refers to the purchase of a financial instrument or portfolio of instruments in order to insure against a possible reduction in wealth caused by unforeseen economic fluctuations (Buckle & Thompson, 2004, p 151).

The Financial Supervisory Authority is a translation of Finansinspektionen that supervises the companies on the financial market in Sweden (Om Finansinspektionen, n.d.).

The Accounting Council is a translation of Redovisningsrådet that gave out accounting recommendations for Swedish companies.

Below follow some abbreviations used in the thesis;

GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IASC	International Accounting Standard Committee
IASs	International Accounting Standards
IFRSs	International Financial Reporting Standards
IOSCO	International Organisation for Securities and Exchange Commissions

1.7 Outline

Chapter 2: This is the method chapter and will explain how we have gone about doing this research. Here we explain the methodological choices we have made and what kind of implications it will have. We will also describe the working process and how the interviews were done.

Chapter 3: In the theoretical chapter we will describe organisational change and how organisations handle these types of changes. We will also cover the framework for the IFRSs implementation process. This will form the frame of reference that we later will use to help analyse our findings.

Chapter 4: This chapter will cover the interviews, first an interview with an accountant's view on an implementation process then interviews on Swedbank's implementation process and the views given by employees.

Chapter 5: We will here do an analysis on our findings from Swedbank in comparison to the theoretical framework. We will try to find the answers to the problem questions.

Chapter 6: This chapter will try to find answers to our problem questions and also fulfil the purpose by drawing conclusion from our analysis. We will also have a final discussion on the result and give some ideas for further research discovered during the process of writing.

2 Method

In this section we will discuss the different methods one can use when writing a thesis, and explain the choices we have made. A presentation of the case studied will be given as well as why we have chosen that case. Finally we will discuss the credibility of the findings and the limitations to our method.

2.1 Positivism and interpretivism

How a person perceives the way knowledge is developed affects the research philosophy one will use, i.e. the way we do our research and how knowledge is developed and seen as being acceptable. Two of the main views that dominate within research are positivism and interpretevism (Saunders et al. 2003).

A positivist tries to gain knowledge through science and to develop the ultimate theory that will cover and explain everything in a situation. With the complexity of today's society that view is almost extinct and now an interpretevistic stance is taken (Björklund & Paulsson, 2003; Saunders et. al. 2003). Saunders et. al. (2003) continues to say that the business world is complex and constantly changing and can therefore not be fitted into definite laws. In interpretivism theory is seen as a tool to give different perspectives on a situation. What happens in the business world is affected by so many things that are specific to one company that it is nearly impossible to be able to interpret the result we get from Swedbank to other banks. Companies today are open systems affected by the environment around them and one can not have one theory to explain it all. Depending on what theory one has chosen one can get several different approaches to a research and what it will answer. We have taken an interpretevistic stance to our research, and the theories we chose will affect our research. One could choose other theories and models to analyse the same thing as we do and therefore get a different result. For example, instead as to look at the implementation process one could look only at the costs or specific problems in this situation and then use other theories to answer such a purpose. We have chosen theories that explain organisational change and our result will therefore cover the change process in Swedbank when implementing the IFRSs.

The interpretevist states that the researcher can not be separated from the research subject, and they are against the search for underlying laws in the social reality (Björklund & Paulsson, 2003).

2.2 Deduction and induction

Deduction and induction are two research approaches which help you form the work process of your thesis.

We will look at what different authors have said about implementing the IFRSs and how it would affect the companies and then together with the help of theories on how a change in an organisation is done we will try to see if this fits with what Swedbank has done. There are several theories that explain management of change in an organisation and some of these will be used to analyse the empirical findings to the existing theories. This is to use a deductive approach which is to start with the theories and use them in order to make predictions about the empirical findings, which you then try to confirm with collected data (Björklund & Paulsson, 2003). We have chosen to do a deductive research since there already exists several theories on organisational change and there is no reason to try to create a new one, it is more interesting to see if Swedbank follows any of these and if they fit in this case.

2.3 Research purpose

A research study can have three different purposes; exploratory, descriptive and explanatory. Descriptive studies aims to identify and obtain information about the problem or issue, describing the situation as it exists (Hussey & Hussey, 1997). We are going to identify what steps Swedbank took during the process and try to find out how they went about it all. We will with the help of interviews try to describe the situation that occurred during 2003 and 2004, the time before the implementation but also a bit on what the result was in 2005. What Björklund & Paulsson (2003) explain is that a basic knowledge and understanding already exist about the research area and the purpose is to describe not to explain. With this said we will also do an explanatory study to some degree. Explanatory studies are used to explain a relationship between variables when studying a situation or problem (Saunders et. al. 2003). As well as describing the implementation process we will also explain why some choices were made, what happened and why they did some of the things they did.

2.4 Case study

We have chosen to do a case study of Swedbank and one reason for choosing them was that we had an established contact with them, but most of all we thought it would be very interesting to do an investigation into one of Sweden largest banks and it would be a chance one might not get again. From the beginning it was suggested that we should write within internal audit but after discussion and reading up on it we felt that accounting was a more interesting topic. When one does a case study it is to catch the complexity of a single case, to understand its behaviour within certain circumstances. A case study is not done to understand other cases, it is not a sampling research and the most important aspect is to understand the case itself (Stake, 1995). Another reason for choosing to do a case study in Swedbank is that here have not been previous studies into this area that focus only on one bank, in fact most focus on other sector rather than the bank sector. Doing a case study involves the process of gathering information about the unit of analysis in order to reach an in-depth knowledge about the phenomena (Hussey & Hussey, 1997). We are with the help of Swedbank going to collect the information about the process in order to be able to analyse the accounting change to be able to understand what happened. In this case study we will exclusively use information gathered from interviews, getting in contact with the people that has hands on experience in the process. This is as Stake (1995) explains one of the most positive aspects of doing a case study, the meeting with real people, moods and situations.

Swedbank's history started in Gothenburg in 1820 with the founding of the first Swedish savings bank. The Bank offers a wide range of financial products and services for private customers and businesses, as well as municipalities and county councils. The company's share is traded on the large cap of the Stockholm Stock Exchange. For the past three years Swedbank is the most profitable bank in the Nordic region (Föreningssparbanken Annual Report, 2005).

2.5 Data collection

In Hussey and Hussey (1997) two main sources of data are explained; primary data (original data) and secondary data. In this thesis we are using both primary and secondary data collected along the way.

The interviews we have done which are the base for our empirical findings are primary data. According to Björklund and Paulsson (2003) primary data is collected to be used in the current study. Since we are doing interviews the data collected is from asking questions about the situation in order to understand the process. This is called survey data when you collect primary data from situations that can not be controlled (Hussey & Hussey, 1997). Even though we have certain questions to ask each interviewee, we have no way of controlling the answers we get, we are using survey data as our main empirical base.

We found a lot written on IFRSs and we had to change our minds on what we could write about several times. Even more than halfway into the thesis we had to change our focus a bit since the amount of information that Swedbank had was limited. We changed our focus to a more broad approach, i.e. focusing on the implementation process itself.

In order to find the information we needed we have used several databases that we have accessed through our intranet at Jönköping International Business School, we have used J Stor, Emerald, and ABI/Inform. We have used the databases to find information best suited for our research. We have also looked at previous essays as well as learning about the IFRSs and the IASs. One should however note that due to the complexity of the standards most of the focus has been put on IAS 39 but even that part of the standards is so complex that it would take us too long to really understand all aspects of it.

All data that already exist e.g. books, annual reports and documents are known as secondary data. Secondary data has been collected at a previous time for another purpose; it might have been primary data for another study (Björklund and Paulsson, 2003). In an organisation an array of secondary data is collected such as payrolls, copies of letters, meeting minutes, different accounts for sales etc. all this is secondary data that can be used in a multiple ways outside its original purpose (Saunders et al. 2003).

Our theory part will be based on secondary data. We have found information about different organisational change theories and what they say. We have also looked at articles and their prediction about this change in standards. The empirical findings will be based on the interviews we have done and this material has been used in order to do an analysis on Swedbank and their implementation process based on the theoretical data.

There are also two types of different data to collect and that is qualitative data and quantitative data. We are collecting qualitative data, we are investigation one sample were the information we gather will come from people's opinions and experiences. This type of data is full and often very detailed and can not be transferred into numbers in order to analyse the findings. As Hussey and Hussey (1997) write it is an understanding of social and human activities.

2.6 Collection of empirical information

There are many different types of interviews; they may be highly formalised and structured or informal and unstructured. In between these two opposites lie several different combinations of the two (Saunders et. al. 2003).

We have done six interviews for this thesis, five of them were with people working in Swedbank and they were all important parts in the implementation process. We have also interviewed one person from Deloitte who was one of the accounting firms Swedbank worked with at that time. See appendices 1 and 2 for the questions asked.

Before we get to the interviews there will be an explanation about the time leading up to that point. Our first contact with Swedbank was when we were referred to Henrik Bonde as the person to talk to when it came to accounting and specifically IFRS. Initially we e-mailed Henrik about what we wanted to write about. We tried with both the help of Henrik but as well as out tutors come up with a topic that would be good. We realised after having e-mailed Henrik a couple of times that the best would be to have a meeting to talk about IFRSs and what areas the bank was affected by. We went to Swedbank's head office in Stockholm to meet Henrik, there we had a really great meeting where he explained the different areas of IFRSs that affected them the most. During that meeting we realised that IAS 39 was an important part, we though about writing about that but after having discussed it we realised it would be extremely difficult and technical to go into. Another thing that caught our attention was that during the meeting Henrik had stated that he did not think there was any problems with the implementation of IFRS, we found this very interesting and decided that we wanted to investigate this instead. After some tweaking we came up with our research purpose to investigate the change of an accounting standard and how it is done within a bank.

Our first interview with Henrik Bonde was done without any predetermined questions, the only thing that was set was that we should discuss IFRSs within Swedbank. Doing an interview like this is doing an unstructured interview and they are highly informal; they give the opportunity to talk freely about the topic without any predetermined questions. They can be seen more as a discussion than an interview between the parties involved (Saunders et. al. 2003). At this meeting we had not decided on a specific structure on who would talk and who would take notes, but it fell natural that one talked and the other two took notes.

The rest of our interviews, including the second interview with Henrik we have used some predetermined questions and areas we wanted to cover. As Saunders et. al. (2003) says this is semi-structured interviews that have a preset structure but still allow for asking new question based on the answers one gets. By doing it this way we assured that we would cover the areas we felt necessary for the purpose of the thesis and at the same time allowed both us and them to stray a bit and cover areas that came up during the interview.

The people we interviewed are;

- Pia Heldesjö is the Chief Financial Officer at Swedbank Hypotek and she was the project leader for the process. This interview was done on the telephone on April 26, 2007. Pia had also requested that we send an e-mail in advance with some of the topics we wanted to talk to her about. The interview took about 30 minutes and gave a really good insight into the process in Swedbank as well as Swedbank Hypotek.

- Henrik Bonde accountant specialist in Swedbank was in charge of the Group perspective in the implementation process. The first interview was conducted on the 21st of March 2007, face to face to gain an insight into Swedbank and IFRS it took about one hour. The second interview was done on the telephone on April 27, 2007, and here we had pre set questions for Henrik to answers as well as letting him talk freely and it lasted for 45 minutes. The second interview gave a really good picture on how the implementation had worked on a larger perspective seen from an accountant.

- Christer Westholm was at the time for the implementation process Chief Financial Officer for the Group Financial department, and had personal responsibility for the entire process. This interview too was on the phone on May 5, 2007 and took approximately 45 minutes. This interview gave a really good picture on the process seen from a more financial perspective.

- Camilla Runelöf was at the time for implementation the assistant accounting director at Swedbank Markets, and now she is the accounting director. This too was done on the phone on May 5, 2007 and took about 25 minutes. This interview gave an entirely different perspective on the process seen from a different department than the ones we previously had learned about.

- Yvonne Germer, at that time worked at Group finance with accounting issues and tax issues, she is a specialist in that area. She is now the acting financial director at Hypotek. She was interviewed on May 7, 2007 on the phone for about 20 minutes. Yvonne provided good insight into how they worked to shape the annual report.

- Stefan Nilsson, Senior Manager, AFR (Accounting & Financial Reporting) at Deliotte. On the 8th of May 2007 we interviewed Stefan for about 50 minutes. We got a really good understanding on how they help in a process like this. Due to the sensitivity of the client and accounting firms relationship we have only been able to put information regarding the process in general in this thesis, it will not be anything about Deloitte's specific work with Swedbank.

All the interviews were done with the help of a speakerphone in order for all of us to hear but more importantly so that we could record on a dictaphone what was said. This worked very well with exception to the interview with Christer Westholm and Stefan Nilsson were they too used their speakerphones, this resulted in that the recording on the dictaphone was not as sharp and it took longer to go over them in order to really hear what they said. We decided that only one should talk while the other took notes on the interview. The first interview we did was in English with Pia Heldesjö and after we listen trough it again it was very obvious that she was much hindered to really express herself freely with more in depth explanation when talking in English. After that interview we took the decision that in order for our result not to be affected by the language barrier we would do the rest of the interviews in Swedish. This do however leave the interviews open to interpretation when translated but we felt that that would be minor in comparison with the effects it could have had if done in English. All interviews was listened to and written down in short connection to when the interview was done, by being able to listen to it again several times as well as having written notes from the interview we were able to write down exactly what was said.

Those interviewees that wanted an e-mail before hand with the topic we were going to cover got that. Only Stefan Nilsson requested to read through his interview before it was used in the thesis.

We also sent out an e-mail asking if people could answer a few questions about their experiences of the IFRS implementation process. We e-mailed people we found on Swedbank's webpage and chose people that worked in the financial department or in the accounting department. The questionnaire (see appendix 3) consisted of about eight questions on the process that people were asked to answers shortly and e-mail back to us. We also asked them that if they did not know anything about this subject could they recommend someone who did. In the end nobody answered the questions, either they said they knew nothing about the IFRS, or that they were not involved in the process. Several also referred us to Henrik Bonde as the person to interview about this, since we had already done that this was not any help at this point.

2.7 Credibility of the research findings

In order to reduce the possibility of getting the answers wrong, focus is put on reliability and validity of the findings. One wants to make sure that the research will stand up to close scrutiny. (Saunders et al. 2003).

Reliability deals with if your findings are consistent, if one has collected data and analysed it in a way that will yield the same results every time. The easiest way to control whether ones findings are reliable is to ask three questions (Saunders et al. 2003):

- Will the measures yield the same result on other occasions?
- Will similar observations be reached by other observers?
- Is there transparency in how sense was made from the raw data?

Since our research is based on a period that has already occurred, a specific situation in time, the results to our questions would probably not be any different from what we have found. We are asking questions on how they went about their implementation process, things that happened, problems and their solutions. The views that the people that we have interviewed had will not change with time, one would get the same answers in the future. The only exception is their own views on the standards that can change the more people get to work with it as well as it might change as the standards might change. Time could have a small effect on the result due to the fact that people forget, we have noticed that even in our interviews that are not that far away form the process, three to five years, and memories are already failing, so one point would be that it might be more difficult as time passes and the answers probably get less detailed as time goes by. When it comes to if other researchers would get the same result the answers is that they would, since this is a descriptive research in to a past event the answers will not change based on who answers the questions. One can ask other types of questions but the answers would still amount to the same result in the end.

Validity deals with if the findings are really about what they appear to be about (Saunders et. al. 2003) When doing interviews the interviewee, the questions, and the interviewer can all have an affect on the validity on the result (Lekvall & Wahlbin, 1993). We have interviewed the people at the top of this process in Swedbank, these are people that know most about the process, so we have gotten our answers directly from the ones that were in the middle of it all. Since Swedbank has kept a tight project group doing the implementation one would not get any better answers from anywhere else. If we would have interviewed personnel outside the project the risk would have been that we had gotten wrong answers due to the fact that they were not involved and had nothing to do with the decisions taken. We have tried to use the questions as a base still allowing for a more open dialogue in order not to influence the interviewee. Since we did not choose ourselves who to interview, our findings are valid since we have not been able to subconsciously choose certain types of people. An interviewee can in some cases deliberately give the wrong answer and adjusts the answer to what they think is social desirable or acceptable (Lekvall & Wahlbin, 1993). This could affect our interviews in such a way that they could tone down the problems they might have had during the implementation process. We do however feel that we got true answers to what types of problems that occurred and how they were solved.

The findings we have gotten are not to be used for generalising the entire industry and can not be said to be true for other banks. How Swedbank has chosen to do their implementation process can probably have some similarities on other banks but the things that occurred during, such as problems, solutions, costs, education, and who was involved is specific to them in that bank. Since the standards have so many options and every company makes choices based on their business, everyone can find different problems and different solutions. The people a company chooses to involve is based on the company's own expertise and that too is specific for each company. So our findings should only be used as to understand Swedbank's situation and not other banks.

2.8 Criticism of method

When doing a case study one investigates a small part of a whole, such as one company in an industry as in our case with Swedbank. The difficulties with this method is that if one aims at trying to represent the whole one case is not enough. It is not possible to make generalisations from only one case (Ejvegård, 2003). As McBurney and White (2007) puts it; the one generalisation one can do about case studies is that very few generalisations can be drawn from a case study.

A critique of doing interviews instead of questionnaires is that they can be time-consuming both when performing them and when putting together the findings. The interviewee might also be influenced by the interviewer and the questions, which can have an effect on the answers. This is not present if the respondent can take his or her time to fill out a questionnaire. On the other hand, questionnaires do not allow for follow-up questions and are more suitable when asking a large number of respondents about attitudes, taste or opinions. If using a tape recorder some people might feel uncomfortable and that could also have an affect on the result (Ejvegård, 2003).

3 Theoretical Framework

In the theory section we will present the different theories that are relevant to our research. The theoretical framework will be used to analyse the empirical findings.

3.1 Introduction

The effective date for the implementation of the IFRSs was 1st of January 2005 and concerned the approximately 90 countries that made the transition and Sweden was one of them. The implementation of the IFRSs meant that all the companies from the concerned countries that are listed on a regulated market had to perform their consolidated financial reports according to the new standards. But before we further develop the thoughts and theories behind this specific change we need to define what we are studying. Within business administration the organisation is a central concept and therefore we will firstly try to establish a framework for how organisations handle changes and then present some of the models within change management that we will later apply in our analysis.

3.2 Organisation and organisation theory

An organisation can be seen as a group of people that are connected to each other by a common goal and where rules and routines exists in order go fulfil this goal (Jacobsen & Thorsvik, 2006). When doing an analysis of an organisation a distinction can be made between an intraorganisational level and an interorganisational level of analysis. The first level refers to internal structures and procedures within an organisation such as organisational control and culture and the organisation is seen as a largely closed system. Interorganisational level of analysis refers to the external interactions with its environment. These interactions include relationships with e.g. suppliers, government, regulatory agencies and competitors, and the organisation are seen as a largely open system (Jaffee, 2001). It has been more and more common to view the organisation as an open system (Flaa, Hofoss, Holmer-Hoven, Medhus & Rönning, 1995/1998).

Organisation theory helps people understand how organisations are created and how they develop over time. It also aims to explain how organisations affect and is affected by people. Secondly organisation theory contributes to improve organisational structure and processes (Jacobsen & Thorsvik, 2006). There is no all-embracing organisation theory but instead one usually talks about many different organisation theories. The trend within organisation theory in the last couple of years has rather been to focus on specialisation than to try to create an overall organisation theory. Therefore we now have different sub-theories around subjects such as power, control and organisational change (Flaa, Hofoss, Holmer-Hoven, Medhus & Rönning, 1995/1998).

An important feature of the open system perspective of the organisation is the ability to anticipate changes and be able to adapt the organisation to these changes accordingly (Morgan, 1997). Change management is therefore an important area within organisation theory (Burnes, 2000).

3.2.1 Organisational change and change management

Change is a constant occurring feature in an organisations life-cycle and some argue that the degree of change has increased significantly during the last couple of years. These changes have led to that managers and employees have, and still are experiencing changes in what ways they are performing certain tasks and hence, in order to successfully adapt to these changes appropriate change management is vital (Burnes, 2000).

3.2.1.1 Theory E and Theory O

Beer and Nohira (2000) presents two different approaches to organisational change that can explain how changes are managed within an organisation. They refer to these as Theory E, were E stands for economic, and Theory O, were O stands for organisational.

The purpose of Theory E is to create shareholder value by maximising economic value. Changes are planned and conducted from the top down with extensive help from consultants. Leaders in an organisation that use Theory E will not include lower employees when trying to find solutions to certain problems. They believe that this is too time consuming and costly. This is likely to separate the leaders in the organisation from the rest of the organisation which might lead to resistance of coming changes. The focus of Theory E is more likely to be changes in structures, strategies and systems, i.e. the ´hardware´ of the organisation since these changes can quite easily be made top down (Beer & Nohira, 2000).

The purpose of Theory O is to develop the human capital of the organisation and to create a learning organisation. This includes high involvement from all parts of the organisation when it comes to solving work-related problems. The changes are therefore less planned and more emergent. Leaders in an organisation that use Theory O will encourage participation rather than a top down approach to changes since top managers are farthest away from what is really going on in the organisation. The focuses of O-driven changes are values, beliefs and behaviour. The top managers will try to create an emotional attachment between the employees and the organisation since emotional attachment is seen as critical to commitment and hence long-run performance (Beer & Nohira, 2000).

Although Theory E and Theory O are two equally successful strategies in the short-run, an organisation using Theory E and hence maximising economic value will probably not be able to compete in the long-run if the employees or managers lower down in the organisation are not committed to the organisation. Similar, an organisation using Theory O and hence creating values and commitment among the employees will most likely not be able to survive without a focus on creating economic value. So whether the goal is to show a profit, survive or creating a learning organisation Theory E and Theory O need to be combined in order for an organisation to be successful (Beer & Nohira, 2000).

With the use of these two characteristic approaches to organisational change we are going to analyse whether the change to the IFRSs in Swedbank were consistent with Theory E, Theory O, a mix of them, or none of them

3.2.1.2 Continuous and discontinuous changes

Changes come in all sizes, forms and shapes but a major distinction can be made between continuous and discontinuous changes (Burnes, 2000; Weick & Quinn, 1999).

- Continuous changes are often referred to as emergent changes. These changes are often small adjustments that occur during a longer period of time. As these small changes add up they can create a quite substantial change that might fit appropriately in future environments (Weick & Quinn, 1999).

- Discontinuous changes are those changes that occur as a one-off event. They are changes that are influenced by external factors such as e.g. technology changes or internal changes such as e.g. a change in key personnel (Weick & Quinn, 1999).

3.2.2 The change process

According to Hayes (2002) changes are often managed in an inefficient way because the managers handling the change do not succeed in following all the steps that are included in a change process. Hayes and Hyde (1998) created a model that can be seen as a guideline for managing change processes. Although it might seem very straightforward and rational, it is not said that this is the only way a change is conducted in the real world, but the model still works as a good framework for how the process should be done (cited in Hayes, 2001). Rippe (2001) has created a similar model that we present further ahead in this chapter so to not repeat ourselves we will only present his model in more detail.

3.2.3 Accounting changes

The nature of a change and the way it comes about in an organisation is highly dependent on the already existing rules and routines that are embedded within the organisation. Rules can be seen as formalised statements of procedures whereas routines are the procedures that are actually used in an organisation. Changes are also dependent on the particular conditions of the organisation such as e.g. its context and history (Scapens & Burns, 2000). To explain how changes such as e.g. a change in accounting procedures are implemented into an organisation Scapens and Burns (2000) have created a modified version of Barley and Tolbert's framework for institutionalisation (1997) (cited in Scapens and Burns, 2000):

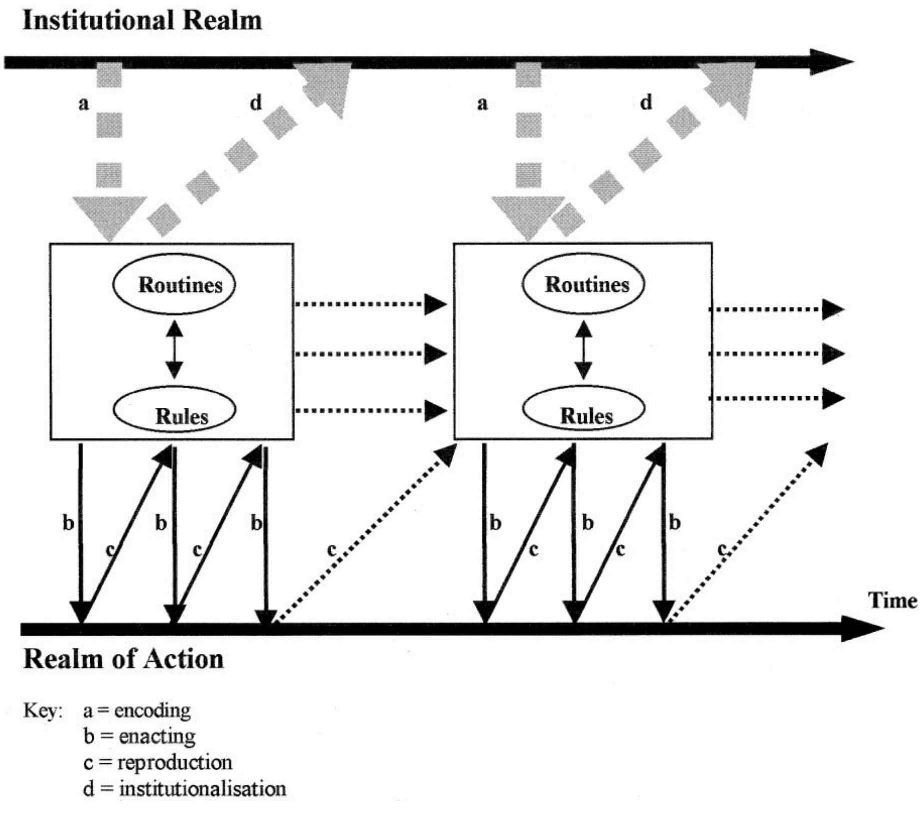

Figure 1 Process of institutionalisation (Barley and Tolbert, 1997) (cited in Scapens & Burns, 2000)

The purpose of this model is to describe and explain the processes of change. When considering a change in e.g. accounting procedures, arrow a (encoding) and arrow b (enacting) will reflect the introduction and implementation of these new rules and routines. The implementation process will be affected by the existing rules and routines. As the new rules are implemented new routines will emerge (arrow c) which are to some extent influenced by the already existing ways of doing things. The introduction of new rules such as accounting rules often depends on the senior management of the company. They need to secure the resources for the implementation and make sure that the new rules and routines will be followed as soon as they are implemented. If the new rules and routines challenge the already existing ones this process might be subject to resistance (we will explain the concept of resistance later in this chapter). The new procedures that have emerged will work alongside the old rules and routines and become institutionalised (arrow d) or more commonly; ´the way things are done´ in the organisation (Burns & Scapens, 2000).

3.2.3.1 Resistance to change

It is probably easier to implement changes that do not challenge the ways things are done in the organisation and that will balance the old rules. Therefore it is also likely to conclude that changes that do conflict with the existing rules and routines are more difficult to implement (Scapens and Burns 2000). Therefore during an implementation process of e.g. new accounting procedures such as the IFRSs resistance might occur if the new way of doing things are very different from how things are being done prior to the implementation. Scapens and Burns (2000) identifies three kinds of resistance that can occur; resistance due to conflicting interests, resistance due to lacking knowledge of how to deal with that particular change, and resistance due to conflicts in the existing ways of doing things. Dawson (2003) continue this discussion by adding that modern changes often result in adjustments to old and established structures and therefore some employees think that it is more convenient to keep the old ways of doing things and might resist these changes. He identifies resistance as being one or a combination of the following elements:

- a large change in the skills needed to perform a job
- a threat of loosing employment or economic security
- new work arrangements or a change in the social arrangements
- a degradation of status

With this discussion of resistance we will try to establish if there were any resistance to the change to the IFRSs and how this might have affected the outcome.

3.3 Implementation of the IFRSs

The purpose of the IFRSs is to increase the comparability and transparency between companies across borders (Nilsson, 2005). To reach this comparability the EU require that all member states within the EU follows the same rules when preparing their financial reports (Artsberg, 2005). This will lead to a harmonisation of accounting procedures on an international basis but at the same time the accounting procedures on a national basis will be more diversified. This is because companies within the same industry will now use different accounting standards. The listed companies will use the IFRSs while the non-listed companies will follow the Accounting Council's recommendations (Nilsson, 2005).

Rippe's (2001) model which is influenced by the model mentioned by Hayes (2002) regarding organisational changes is directly customised to the implementation of the IFRSs in Swedish companies. In his article Rippe says that the change in accounting procedures to the IFRSs requires thorough planning and he divides the planning and implementation process into four different phases;

Phase 1: Planning and preliminary analysis

- Initially a thorough analysis over the existing accounting procedures are being investigated in order to map the areas that will be most affected by the implementation
- An analysis of the IT system is done to see if any upgrades or changes is necessary
- A proposal for the project group that should be responsible for the implementation are formed

Phase 2: Project organisation and beginning

- The project group is put together and should consist of as much internal resources, and represent as many departments and subsidiaries as possible
- External resources should be used when relevant
- Education of key members of the staff from finance and treasury departments

Phase 3: Evaluation and analysis

- The standards include different options and these should be analysed and evaluated according to the effects they have once implemented
- The options should be presented to the board which make the decisions on what options to implement

Phase 4: Implementation

- An annual report is produced that are presented according to the IFRSs and the accounting principles one have chosen are disclosed. It is important to understand the effect of the choices one has made in order to enable a good communication through the annual report to the investors
- An evaluation of the end result is made

Rippe (2001) points out that it is of vital importance to start the planning process early and to include professional help in the initial face of the process. A large company with many subsidiaries that has to follow international laws will have a more complex process and it is therefore of even greater importance to start the process early.

A study done by Sandquist and Sidorsson (2006) investigated the process of the change to the IFRSs in five Swedish companies of different size. They used Rippe's model on how to implement the IFRSs to try to explain the process of changing to these new standards but found that the companies that they had investigated to some extent deviated from this model. What they had found was that none of these five companies had a project group to lead the implementation but instead the whole process was done from the top managers or the Group accountant. The authors conducted their own model that could better describe the implementation process of the IFRSs in these five companies:

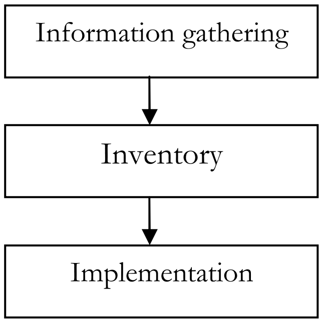

Figure 2 Implementation process by Sandquist and Sidorsson (2006)

With this investigation they also found that these companies thought that they were well prepared for the change since the recommendations from the Accounting Council that they followed were influenced by the IASs. Because of this they underestimated the time that was needed for the implementation. What all the investigated companies could conclude after the implementation was that they had also underestimated the requirements for preparing the annual reports and all the extra information that had to be disclosed in the notes.

This view is also shared by Jan Buisman (2006) who says that many of the Swedish companies that have converted to IFRSs in 2005 had underestimated the complexity with implementing these new standards. The result of this is that not enough time and resources has been put aside for this purpose. The process of the change to the IFRSs is extensive and since many of the companies had underestimated the process, the purpose of these new standards, which is to provide relevant decision-information for investors, has not fully been met this first year. What he found in several annual reports was that many companies were lacking in disclosing the appropriate information for the end users. But he concludes that the journey has just begun and with some improvements from the companies the goal of providing investors with relevant information is not too far away.

We will also use Rippe's model when analysing our result to see if the model fits with the process done in Swedbank or if the process is closer to the result found in the study by Sandquist and Sidorsson (2006). Jan Buisman's view about the preparation of the annual reports will also be compared to Swedbank.

3.3.1 Top down and bottom up

There are several ways on how to implement IFRS but the end result should always be the same. Although there are different approaches one can distinguish between two more general approaches, top down and bottom up (Rippe, 2001).

3.3.1.1 Top down

The top down approach means that all the companies within the Group continue to account according to the local GAAP or a predetermined Group policy. This means that the implementation would only affect a small part of the Group. This is cheaper since it requires less external help. The disadvantage with this is that there will be less understanding of IFRS within the Group and it might therefore be harder to assemble all the information.

This means that in the end the process of putting together the annual report will be more time consuming (Rippe, 2001).

3.3.1.2 Bottom up

The bottom up approach is thus the opposite. A full implementation of IFRS is made on all levels within the Group and the information presented to the parent company is already translated into IFRS. This could lead to a more time effective reporting. It is also easier to understand the Groups result and status. But in order for this harmonisation to take place the organisation need to have a big system to handle all the information. The bottom up approach is probably more expensive than the top down approach and the company need to have large educational resources (Rippe, 2001).

4 Empirical Findings

This interview section will be divided into two parts, the first being an interview with Stefan Nilsson at Deloitte, and the second with employees at Swedbank that worked with the implementation of IFRS. All interviews are done as personal communication and should be read with that in mind.

4.1 Deloitte

This interview is about the knowledge Deloitte provides in an implementation process. The reader should note that it is general for all businesses or special for the bank sector and has no regard to Swedbank's implementation process

We interviewed Stefan Nilsson, Senior Manager, AFR, Deliotte, working with accounting of financial instruments (S. Nilsson, personal communication, 2007-05-08).

Stefan explains what they do at his department at Deloitte, they have two main areas, first where the companies are our clients and we are the appointed accountants, we then work with the accountant team as experts, we use checklists to go through the IFRS regulations. Secondly, we also work as consultants for company's that have other appointed accountants but want us to help them with the outline, help with inventory of financial instruments, what balance items there are and how they should be valued. We help to do a gap analysis between the old Swedish GAAP and IFRS.

We also work with detail questions from both accounting clients and consulting clients. It can also be the accounting team that wants clarification regarding a certain accounting issue. We can however not be consultants on the companies that we are appointed accountants at, we can provide checklists and advice but we are not allowed to be involved in the implementation process.

The most of our time is spent on servicing our accounting clients. Before we are hired by a company we have a meeting where we present the team and discuss a suitable team, time frame, fees etc. In the second meeting we divide the work into different areas, traditionally two main areas; financial instruments and non financial instruments. The financial instruments are IAS 39 Financial Instruments: Recognition and Measurement, IAS 32 Financial Instrument: Presentation and IFRS 7 Financial Instruments: Disclosures.

Regarding financial instruments when we work with large companies they often have their own internal bank; treasury that deals with borrowing money, secure flows, and so on. In a situation like this financial instrument consultants from Deloitte generally work directly towards the treasury department, and the rest of the team work towards the head of accounting. We work with checklists that normally have 300-400 pages in order to go over everything. We check assets and liabilities, how they are handled today and how they should be valued under IFRSs. There are always some quick fixes that can be done, areas not affected as much but then there are the bigger areas that are more complex; e.g. pensions, and financial instruments including hedge accounting.

When we work on ongoing processes we advice during the entire process on what choices there are and if the choices the company has made are ok or not. Continuous checks are done, and in the end we are called in to go over the project, make sure all instruments have been checked and if something is missing.

At Deloitte we provide the knowledge we have from working with lots of different companies, as well as competence centres in Denmark, London and Paris that provide special IFRSs knowledge. Those teams meet and discuss specific and unique problems and situations that can arise in countries that Deloitte work in. Even if a bank or other company has special skills about their situation they are still interested in hearing Deliotte's stand on certain issues.

4.1.1 The process

When it comes to the implementation processes no one seem to have sufficient resources, it is common that clients underestimate a big change like IFRS. With a standard like this there are always issues on how it should work in a Swedish company. There are certain areas I find important in an implementation process and they are;

- Resources, pick out personnel to work in the process, and appoint time
- Professional project group
- Documentation, it is important to write down what is decided in meeting on what choices are made, important further a head if you need to go back.
- Evaluation afterwards, nobody ever dares to do it, and everyone is really bad at it.

4.1.2 Tools we use

We mainly work with checklists. The checklists show the areas that are not ticked when you are done, it might be that the client do no think that is relevant for them and then it is up to the accountants to decide if that area is important or not. The process of implementing IAS 39 in a bank is very advanced, a bank has a lot of financial instruments and if one should use a checklist for each one, you would fill a room.

The tools we use for an implementation project is excel, divided into fulfil, does not fulfil, and comments, we even do the time axel in excel. Since we do these types of projects all the time it is basically routine, however I was not a part in the beginning of the introduction of IFRSs and I can imagine that a lot more time was spent thinking about it then.

4.1.3 Stefan's final thoughts

When talking about IAS 39 Stefan does not know if it is the most difficult standard, and since he works with it he says he is not objective enough to say. However, if you look what has been written about the IFRSs a quarter of the pages are dedicated to IAS 39. In the big four accounting firms, nearly all working with IAS 39 have been recruited from the financial sector. It is a lot easier to learn the accounting bit than the financial bit of IAS 39.

Stefan thinks the transition to IFRS is good, some of his feelings are based on the fact that he is from the financial sector and he thinks that fair value is the most relevant. He does however feel that the disclosures are made for the analysts in the financial sector and that normal readers drown in these information requirements.

The special thing with banks is that they basically only have IAS 39 and IFRS 7, 90% are these two standards and if you look at the balance sheet it almost exclusively deal with financial instruments. One reason for the rather smooth transition for banks was that fair value already existed, they have so many financial instruments and trading which result in that they knew what the values where each day. The Financial Supervisory Authority's standard has for several years looked at IAS 39 which led to that banks was a lot closer to the IFRSs than others.

4.2 Swedbank project group

This part of the empirical findings will cover what the employees at Swedbank that we interviewed thought about the IFRSs implementation process. They were all important elements in the central project group that was in charge of the change in Swedbank (see figure 3 for Swedbank's organisational chart over the project group).

The people we have interviewed are;

- Henrik Bonde accountant specialist in Swedbank who was in charge of the Group perspective in the implementation process (H. Bonde, personal communication, 2007-04-27).

- Pia Heldesjö is the Chief Financial Officer at Swedbank Hypotek and was the project leader for the process (P. Heldesjö, personal communication, 2007-04-26).

- Christer Westholm was at the time for the implementation process Chief Financial Officer for the Group Financial department, and had personal responsibility for the entire process (C. Westholm, personal communication, 2007-05-07).

- Camilla Runelöf was at the time for implementation the assistant accounting director at Swedbank Markets (hereafter also referred to as Markets), and now she is the accounting director. Camilla says her job was to represent Markets thoughts and problems with the IFRS implementation. Swedbank Markets has all the parent company's derivatives, and has all the trading activity. (C. Runelöf, personal communication, 2007-05-07).

- Yvonne Germer, at that time worked at Group finance with accounting issues and tax issues, a specialist. She is now the acting financial director at Hypotek (Y. Germer, personal communication, 2007-05-07).

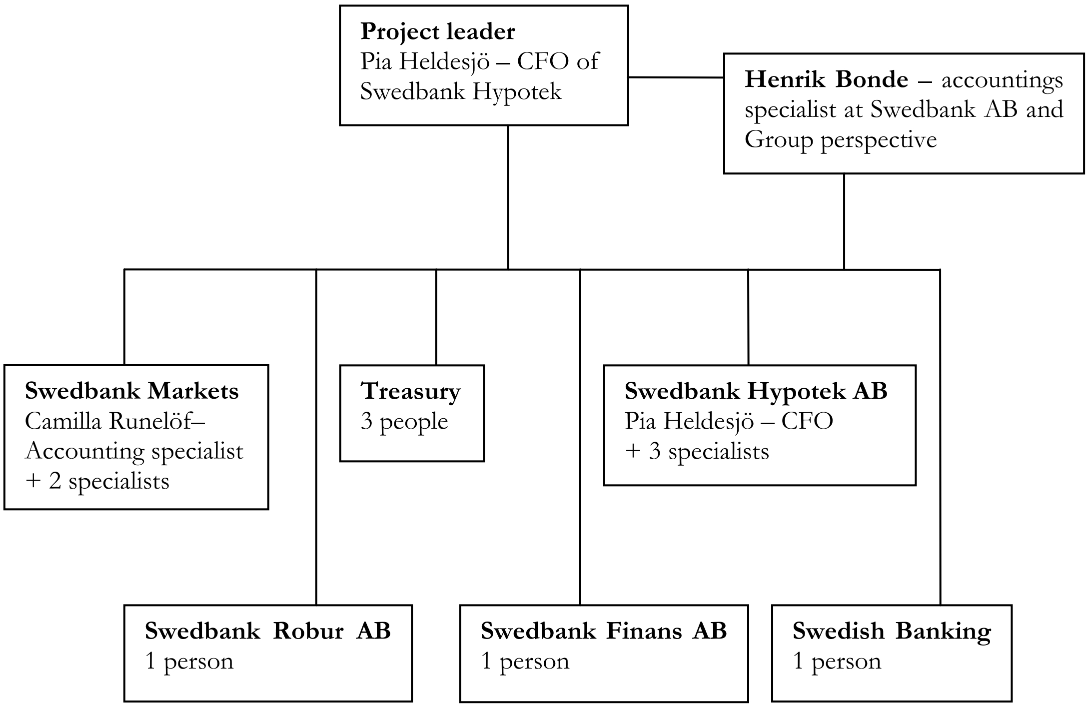

Figure 3 Swedbank Projectgroup chart

4.2.1 Beginning of process

We began the process of implementing IFRS in 2003 says Henrik. This was when we choose the different options and how we should deal with all the different transactions. It has been a gradual transition to IFRS ever since 1995 but it was in 2003 that we started to change the system in order to fully convert to IFRS by filling the gaps between the Swedish accounting system and IFRS (Henrik Bonde, 2007). Pia confirms and says that they started their implementation process four years ago which was just two years before the deadline to report according to IFRS. They prepared by planning the entire process. Their main goal was that the implementation would not affect the business in Hypotek and Swedbank. The choices they would make should not make the accounting affect the business but the business should affect the accounting (Pia Heldesjö). Pia goes on to describe that they did a pre-study to locate what areas could create problems and find the solutions to them. They looked into how to value their accounts according to the new system as well as how the process would change different business areas, what needed to be done to the IT systems, routines for the accounting departments (Pia Heldesjö, 2007).

According to Christer they started with the implementation of IAS 39 in 2003, and had prepared during 2002-2003 and looked a bit into how they were going to solve this by looking at the options the standards had. They looked at what would be the best solution for them, it was not easy Christer says, there were quite a lot of problems. Henrik explains the beginning and says that the first step of the process was to map all the differences between the Swedish system and IFRS, and when these gaps were filled and we had identified all the changes that had to be done we did the changes and calculated the different values (Henrik Bonde, 2007).

In the beginning of 2005 we collected all the information needed Henrik says and we also did the change in accounting standard. It was not a problem to collect the information that we needed and it was not a problem to calculate the different values either. The financial industry consists of interests, currency and share-prices that are composed differently and the values on these are the market value. Besides, we have for a long time calculated the market value for all our derivatives and disclosed this in our annual reports; the only difference now is that we need to book these values as well (Henrik Bonde, 2007)

Camilla does not remember when they started but says the worked with it for about a year, we started quite early to think about it all. Camilla took part in the central project that Henrik Bonde was in charge of, we did not have our own project in Markets. There were two more people from Market besides Camilla that attended the central project she says.

Camilla say that market looked at the problems they had at that time and what they wanted, which was to market value all positions, so the implementation was not a big issue for their department. Camilla says the result was so much better with IAS 39 because with that they could market value basically everything. We market value almost everything now except for a small part that is not allowed to be valued to market according to Swedish law.

In the autumn of 2005 Yvonne became involved in how the annual report should be shaped and what should be written in it. So I was not a part in the beginning of the process. When I became involved it was already decided how the accounting principles should be handled and how they were going to be used, Yvonne says. Together with Henrik Bonde they prepared how an annual report should be shaped and how the financial information should be presented. There are several options on how to present the information and it was these kinds of questions we worked on, it was mainly me and Henrik but we also talked to other people to get their ideas and thoughts (Y. Germer, 2007).

4.2.2 People involved

Christer's closest co-worker at that time was Pia Heldesjö and Henrik Bonde, and the three of them had the overall responsibility. Christer says that there were quite a lot of people involved, mainly from Swedbank Markets, Treasury and Swedbank Hypotek. Swedbank Markets deals with the banks trading and was heavily affected by the change, as well as treasury which take care of financial assets and debts, and finally Hypotek which had a lot of its areas affected. Besides people from these departments there were also some specialists in other areas, as well as accountants. (C. Westholm, 2007).

According to Christer there was different workgroups during 2002-2003 that focused on implementation projects, such as IAS 39 and IAS 19 (pensions) that Henrik was in charged of. Overall about 20-25 people worked in these groups. It fell natural that the people that would work with the process would be from Group finance since they are in charge of accounting issues and had worked previously with the different departments. A dialog between Group finance and the departments decided who would be able to get involved, but also who had the resources. They chose people that had a focus on accounting, specialists, and others that had insight into the subject of IFRS. (Christer Westholm, 2007)

Christer explains that Swedbank has a Financial committee that handles accounting issues and financial issues, on the committee is the Chief Financial Officer, Risk Control Manager and other selected people, they took the decisions but the more formal say came from the board. A lot of the process was discussed in the board audit committee and the board, so the decisions were well anchored. There was a genuine interest from the audit committee about the process, you understood that it was very important to them, both IAS 19 pensions and IAS 39 (Christer Westholm, 2007).

4.2.3 Education

Henrik says that when it comes to accounting there are always changes and therefore they have a special day every year where maybe 50-60 people from the bank participate in conferences in order to learn about these new changes. In 2003 this day was of course completely dedicated to IFRS but we also needed more resources for education than previous years due to the change. Most of the education was needed to learn about the financial instruments and this concerned many people within the bank. The education was mostly done in-house with the resources that they had except for the conference that is held every year which is a service that we buy externally (Henrik Bonde, 2007).

Pia does not want to call the education a problem but it was still a big issue. They had to educate their personnel so that they knew what was going to happen and so that they would understand IFRS, especially for Swedbank Hypotek who would be affected a great deal. Pia confirm Henrik by saying that they used both external workshops as well as in-house education. She also says that one of the reasons for focusing more on in-house education was that the external workshops were a bit too general. They found that they had so much specialised problems that required more education. The departments most affected was accounting and treasury. The workload in the future Pia believes will be no more or less than before when using IFRSs.

When we talked to Christer about education he explains that there was some education outside the project, but in 2003 it was mostly ongoing internal education. There were seminars and conferences, a lot of breakfast seminars, every accounting firm with some self respect had educations about IFRS implementation at that time. We could not attend everything and it was not necessary either Christer says.

4.2.4 Recourses and costs

It is very hard to estimate the costs due to the education and training of employees since it is hard to draw the line between what is due to IFRS and what is due to other changes Henrik explains. There would still have been costs from education even if we did not have to change to IFRS (Henrik Bonde, 2007). Pia also says that educating the staff was not a great expense. Hypotek did not hire any extra personnel during the process but Pia says the existing staff had to work quite a lot since they relied on internal resources. Henrik states that there was no need to hire any new staff at any part of Swedbank but the ones already working in the bank needed to work more intensively from 2003 to 2005, and as a complement we used some external resources. In the beginning of the process we used some consultants from Ernst & Young to help us map the gaps between the Swedish system and IFRS. Henrik says that if I should try and estimate how many hours we have put down on the implementation I would say something around 20 000 hours, which roughly equals 10 full time posts but we are continuously doing small changes and it is also here difficult to draw a line between time spent on the implementation and time spent on regular work. This is furthered confirmed by Pia who said it is very hard to define the cost for any area, how do you separate normal internal cost from the extra resources used when most is done internally. Henrik ends by saying that when it comes to the total cost of the implementation it is very difficult to estimate it but it has been relatively low compared to other changes that we have had to do, for example the change to BASEL II (standard for banks).

Christer mention some of the external resources they used, among them was Cap Gemini (consulting company) that came and provided method support for how they should evaluate IAS 39. The main support came from their external accountants, from both Ernst & Young and Deloitte. There were extensive discussions with them at this time says Christer and that the cooperation worked well. We had quite a lot of costs during the first year, we used consultants that help get our system going, accountants that worked a lot and hence billed us accordingly, so it was not cheap Christer says, absolutely not.

Camilla from Markets say that they did not use any external resources except the ones in the central project. Yvonne says that when they worked on the annual report and had a proposal ready they contacted the external accountants and they came with suggestions, both Ernst & Young, and Deliotte had templates on what should be in the annual report. However, these templates were general and not specific for the financial businesses so we also looked at banks in the EU that already accounted according to IFRS (Yvonne Germer, 2007).

4.2.5 IT system

According to Pia the changes made to the IT system were that all accounts needed to be accounted with fair value, before they had used deferred hedge accounting for almost all of the balance sheets within Hypotek. With IFRS they now changed to market to market (market value) for almost everything, but still Pia did not think it were a very big change nor a costly one. Henrik adds and says that we did not need to change our IT system that much because our system is already programmed to value all the derivates to market value. Swedbank Hypotek had already existing programs to calculate market value and all that was needed was to make these a bit more sophisticated and more accurate (Henrik Bonde, 2007).

Christer's view on the IT-system is that the changes was quite big in Hypotek, although we already had to implement a new financial system but that had to be fitted so that it would support market valuations. He also say that the time before the system was in place was really difficult. In other parts of Swedbank there were no major changes in the IT system.

Camilla explain that they did not have to do any IT changes, so it was all very smooth, we came out very easy. Normally when you talk about trading instruments and trading business it is very difficult but this time it vas very very easy. We are used to work with market value so the change was very natural for us (Camilla Runelöf, 2007).

4.2.6 Problems

Henrik explains that in the implementation process we more or less only encountered one problem, and this had to do with FVO and IAS 39. When we started the process of implementing IFRS in 2003 FVO was one of the options in the standard that we had chosen. At this point the standards were not completed and IASB did some improvements to the standards. What IAS 39 says is that certain transactions should be valued to market value and certain transactions to acquisition value and if you got an inconsistency because of this you could use FVO which meant that you could take any transaction and value that to market value. In that way you hedged yourself against any risks. But FVO was strongly opposed by some members, especially France who managed to scare EU enough so that they took away this option for the implementation in 2005. There was no chance that we could make our own hedge accounting standard on such a short notice so we had to live with the inconsistency between the different transactions. But at the end of 2005 with a lot of pressure from different members of the EU they finally changed the standard and introduced FVO as an option again and this solved all our problems. But during the first three quarters of 2005 we were forced to do business based on these rules and it should never be the way that the business is affected by the accounting standards (Henrik Bonde, 2007)

Pia goes in more on FVO and the problems for Hypotek and says that the biggest problem area was that derivatives had to be valued market to market while lending and funding was required to be valued at acquisition value. According to Pia, derivatives, debts and funding are very closely connected within Swedbank, and valuing them differently was a BIG problem. The FVO that Swedbank was using to solve this problem had been taken away as an option, and they more or less had to wait for it to come back. When FVO was finally approved in November 2005 it solved all their problems and they could now value all derivatives, debts and funding to market to market. The period before FVO was approved was a difficult time for Swedbank Hypotek, they tried to find other solutions with hedge accounting but found it almost impossible to implement into the business due to Hypotek´s huge amounts of lending. They have more than 1 000 000 different mortgages within the bank, and documenting them as hedge accounts would be difficult if not impossible (Pia Heldesjö, 2007).

The areas that created the most problems for us say Christer were lending, debts and derivatives, Swedbank Hypotek took the heaviest hit, while Market and Treasury found other solutions rather quickly. Market changed to market value and treasury did hedge accounting. Hypotek's problem was that for the first three quarters we were not allowed to market value everything and that was not easy, and up until November we had to apply the main standard option which led to substantial effects on the result. This was solved in November and in the annual report there were no effects on the result (Christer Westholm, 2007).

Camilla says that they had no big problems in Markets it was more the daughter company Hypotek that had problems. The implementation went really well, we got what we wanted says Camilla. The only problem was that although FVO could be used for set interest lending it was not allowed for set deposit rate, but we were lucky and the book with the set deposit rate was relatively small so even if it affected the result it was a small affect. When FVO was approved the problem was gone. Camilla ends by saying that for them it is better than before, in the Group it was probably more problems but from a strict market trading perspective it has improved from before. As of January 1st, 2007 we also book keep according to the IFRSs in the legal entity, before we only made adjustments for the Group, but even this has worked without any problems. There is no problem getting the market value either since we already calculate for it in our trading systems, so we use the front office calculations for market value (Camilla Runelöf, 2007).

Yvonne explains that since it was the first year for everyone to do an annual report according to IFRSs in Sweden we could not peep at each other, one gets an accounting standard that is complex and is in English. It can be hard to take on everything when it is in another language, it is not that easy to see exactly what one should write, what rows should we have, how should the notes look like, what texts should be written, how should we translate into Swedish. It is a lot of details to take into account, to decide what is reasonable to write about, it takes a lot of time to go over details. It was very time consuming and a lot of discussions but no problems that could not be solved (Yvonne Germer, 2007)

Most of the information we needed we already had access to says Yvonne, some needed to be modified, added or withdrawn. Some needed to be accounted for in a different way but we have always had to have a lot of information about different position and posts. All the essentials I felt we could solve pretty well (Yvonne Germer, 2007).

Henrik also points out that one must not forget that we also serve under the Financial Supervisory Authority and their recommendations which has for a long time been influenced by IASB's standards. In these recommendations there were a lot of disclosure requirements that are similar to those under IFRS and in the beginning of the 21st century the Financial Supervisory Authority changed these recommendations a lot in order to get closer to the disclosure requirements from IAS 32 as well as the valuation rules according to IAS 39. And even before this, as early as 1995 we started to value financial current assets to market value with the few exceptions in the Swedish annual accounts act (Henrik Bonde, 2007).

4.2.7 Attitudes

Pia say that the attitude before the change was not positive but neither negative, the period when the FVO was removed was however very problematic and a negative attitude grew but as soon as FVO was approved it became much more positive (Pia Heldesjö, 2007).

The attitude towards the change was probably seen as a necessary evil says Christer, no pros or cons and that is probably the view even today. It is probably not much better for the ones reading our information, others may think so but we are not that impressed. The feeling was that the accounting system we had worked well, we had a model were we accounted for accrued acquisition value. It took a couple of years before people would understand what we were doing, maybe it is us explaining badly but I think it is mostly the fact that the standard is complicated. It took a long time before the market and other actors understood what this change entailed (Christer Westholm, 2007).

The attitude for the change was positive for everyone in Markets, "YES" everyone said and then it was just a matter of moving on Camilla says. Any education was not necessary it was more a matter of that now we needed to book on two more accounts so it was no problems, we have not changed any systems at all.

4.2.8 Evaluation of standards

Henrik says that the different options one has with IFRS has made it easier to give a more correct picture of the company. Our motto is to be able to give a correct picture of what our business is. But these different options have led to that more companies do different choices. So it is therefore more difficult to compare companies in Sweden with each other today than previously. Henrik goes on by saying that on a European level it has been easier to compare companies with each other since it is disclosed in the annual reports what kind of choices and valuations the company has made. There is also a more subjective picture of the company since the values are based on assumptions about the future and in order to be able to understand the different choices that the companies use, you need to have certain knowledge about the different choices in the first place (Henrik Bonde, 2007). Pia recognises that the idea of an international standard is good, it should now be easier to compare external reports from companies within the EU, however she also feels that the standard Sweden had before was a good standard.

There was definitely a need to change to a uniform standard says Henrik. The Swedish system was a good system but if we are ever going to have a functioning internal market within EU we need to have the same accounting system, otherwise the financial market would not work effectively. The reason why EU chose IASB's standard was mainly because they already existed and had a ready standard. They could as well have done their own standard but this was easier and it might have been hard to get all the countries to agree on a standard if it was not already complete (Henrik Bonde, 2007)

Pia also says that there are still big differences within the EU due to the many different options the standard allows for, but it is a step towards a more comparable business sector. When asked if she felt that removing the options would make for a better and more comparable system. Pia quickly replies “NO NO, do not take away the FVO”. We need more time to create an even more integrated market, and each country has it own set of problems, national problems that need to be solved first. We will go toward a more uniformed standard but it will take a lot of time. Pia does not think it is easier to compare, since you have to understand how each company has used the standard, which choices they have made, for example Swedbank used the FVO while SEB does not. Even if that information about what options are chosen, is provided in the annual reports you still have to know that there are several ways to implement the standard and what that means. The end result is affected by the choices you make, the figures are affected by those choices and might not be what they appear to be about. So Pia thinks that companies are more difficult to compare today than before.

Christer does not believe that it is now more difficult to compare Swedish banks, but it is not easier either. The people in the accounting departments in the banks understand each other quite well but it may be more difficult for others who are not as up to date on financial accounting instruments. Before when we accounted for accrued acquisition value everyone knew what that was and what effects it would have, now it is much more difficult to understand what we are doing (Christer Westholm, 2007).

Henrik explains that the absolute greatest advantage that we have experienced with the IFRSs is that it is much easier to compare one company with another within the EU, however it has had a negative effect when comparing Swedish companies, that is harder now than before. If we want to see what is going on in another bank we can much easier understand what they have done and what they base their assumptions on. It has become one language within accounting so to say. The biggest disadvantage with the standard is that it is a bit too specified. The old system we had was more based on principles whereas this standard is more based on rules. Sometimes it takes a bit too much time and effort in order to create a correct picture of the company with this new standard (Henrik Bonde, 2007).

Yvonne says it is hard to see the purpose when you are working with parts of IFRS, it is hard to see if it is going to be so much better, and hard to see if it is really going to be clearer for the reader. It was not as if everyone was happy and thought is was great, we had some information and went over the principles and tired to get them so see the differences in different valuing categories and what options it gave to be able to value this way. We got acceptance but not much more Yvonne adds.

Yvonne does not feel that it has become much easier to understand the financial information, but she also says that she is not an analyst and she does not really know how they think. She feels that for the ordinary man it probably has become more difficult to understand the annual reports, that you can choose to value one way or the other.

4.2.9 Review on the process

Henrik and Pia do in the end say that the problems were not big since Swedbank has gradually adapted to IFRS since 1995. Accounting standards change every year and will continue to do so says Henrik. Pia goes on by saying that Sweden was very well prepared, and the thing causing problems was just the IAS 39 (FVO), other than that there were no big problems. Pia also say that they always meant to document the process but as most cases what one means to do and what one finally does is not the same, so there are no documents that can be read about this period.

Christer says compared to other accounting changes this is the biggest one he has ever worked with, and he has worked with accounting issues for quite some time now. We have followed changes since the mid nineties since the Accounting Council has reacted and given out recommendations, ongoing adjustments, there has been a lot of changes but none as big as this one.

Christer says that his view on the process is that it created a lot of problems and difficulties on and off, and that it was a lot of long discussion during 2003-2004 until they could put their foot down and really decide on what to do. None of the options in the standard appealed to us and they tried to find their own variations, sometimes successfully sometimes not, it was the market valuation of the derivatives that was the big problem.

When talking about things that could have been done differently Christer says that there were probably things that could have run more smoothly. We spent a lot of effort and time on solutions that we in the end could not use, but on the other hand we did not know how the standard would be and one can not just sit and wait, you have to work proactively as well says Christer. During 2003 and 2004 it was hard to know what we could skip and what we had to do, some things was probably not optimal but otherwise I think our timing was good Christer ads. The one thing we could have started a bit earlier with was the system changes but even that is difficult when you do not know what you are going to do.

4.2.10 Annual report

The first annual report was presented for 2005, and by then we had re-calculated the first three quarters to the new option, FVO and we now had a standard that fitted us Christer explains. The annual report itself was not a problem, there was a lot of new information and a lot that needed to be described and accounted for differently but it was not a big problem. Yes, it did create more work for the people involved, both from the bank and the accountants. They had checklists that they followed, 300 pages that needed to be ticked off, hard work but we knew rather well how it should be reported. There was no evaluation done for the first annual report. No major differences between 2005 and 2006 years accounting, there was small changes between the years but mainly we got it right in 2005 (Christer Westholm, 2007).

They were happy with the annual report and kept most of the structure from 2005 till 2006, but Yvonne also says that she was not as big of a part in 2006's annual report but no big changes that she can remember. The accountants did not suggest any essential changes when looking at their draft it was more on a detail level, the basic form we kept. We presented to our boss Group financial officer Christer Westholm, and I do not know if he then took it even further for a more formal decision (Yvonne Germer, 2007).

4.2.11 Future

The change to IFRS is a big thing but accounting standards change every year and it will continue to change even in the future and new standards will be presented and it has already since 2005 changed a lot. There will be more dramatically changes in the future though, in January 2009 there will be a new IAS 39 and new ways to value pensions to mention a few and these changes will probably affect us more than the changes that we have already done (Henrik Bonde, 2007).

In the near future Christer does not see any changes of this magnitude, he says there are always continuous gradual changes. He adds that it depends a bit on IASB and FASB and if they can get together and unite on a standard not only of EU and USA but also the entire world, but for now the message is that there is a break to catch ones breath and be able to adjust to the changes made.

In the future Yvonne thinks that it might be changes on a formal level but no IAS 39 revolutions. If one changes all the time it becomes harder for the users to interpret what the annual reports say. She has a feeling that the ones making the standards realise that change is not something done in self interests but to actually keep something for longer periods is healthy. She thinks it is going to look like this for a while.

4.2.12 Summary of the empirical findings

The implementation process started in 2003 by looking at the options and filling in the gaps between Swedish GAAP and IFRS, and how the changes would affect them and what they needed to change. They used some external resources to help map out this process. In 2005 all the information they needed was collected and the changes was put into effect.

The people chosen to work with the process and hence be a part of the central project group was from the departments most affected, and other specialist in the area. They already have education each year on accounting, the difference this year was that it was only focused on this particular change and that some more education was needed. Most of the education was done in-house, with internal resources. A small part used external resources to help with the process, e.g. seminars at auditing firms.

The costs are hard to estimate since it is very difficult to separate the normal cost one has from the ones that was put on the process specifically. External cost are however easy to calculate but they did not use them as much and it was not a big cost. There were no big changes in the IT system, only small changes to make it more sophisticated and accurate, this was not a big cost either.

The biggest problem area was IAS 39 and FVO, which concerns the valuation of lending, debts and derivatives. The most difficult time was when that option was taken away and they had no other solutions that fitted their operations. When FVO was approved in November 2005 it solved all their problems. They had some problems in the annual report on how the information should be presented and some translation problems in understanding this complex standard.

The attitude towards the change was neither positive nor negative, more seen as a necessary evil. Attitudes deteriorated during the first quarters of 2005 but changed back when FVO was approved. The change was seen as necessary in order to create an international market where it would be possible to make comparisons between companies. However the feeling is that it is now harder to compare Swedish companies to each other but easier to compare those in the EU. There is also the feeling that the information now given about companies are harder to understand for users than before and that it is more focused towards analytics rather then the average person.

5 Analysis

This section will analyse the empirical findings to the theoretical framework to see if what happened in Swedbank fits to what is said about organisational change. We will also analyse predictions and previous studies on the implementation process and if any of them fit Swedbank.

5.1 Analysing the interviews

In our findings there are many similarities but also some differentiations in the answers. We have found it important to analyse why this might be the case and analyse the underlying factors of the interviewees' answers. Some of the areas where the answers have been different and sometimes contradicting are; costs, problems and attitudes. Pia Heldesjö and Henrik Bonde both felt that the costs for the implementation was hard to calculate since it is extremely difficult to separate the hours spent on the implementation from regular working hours. Further Henrik says that it was not an expensive process while Christer Westholm thinks that the process was definitely not cheap and that they had a lot of costs during the first year. We believe that these contradicting answers can be derived from the different positions and responsibilities they have. Christer on the one hand as the Chief Financial Officer has a responsibility for the costs within Swedbank while Henrik as an accounting specialist might not have the same focus on the costs. It might be easy for Henrik to say that the costs was not substantial when comparing to other changes that has been done while it is Christer's job to look at all the costs and make sure that Swedbank keeps its financial goals. In a financial department all costs are significant.

One also gets the feeling that Henrik tones down the difficulties with the implementation while both Pia and Christer emphasise the problems with the FVO. We believe that the reason for the different answers are that Pia as the Chief Financial Officer of Swedbank Hypotek was to a great extent affected by the FVO in her everyday work while for Henrik FVO was just a problem that was needed to be solved. We feel that for Christer the problem with the FVO meant that it would ultimately lead to effects on the result and therefore he emphasised this as being a problem. Also interesting to note is that Christer mentioned that they had problems in the beginning of the process when trying to decide the right solutions for them. This was not mentioned by anybody else. The reason for this might be as simple as Henrik and Pia does not remember this or more likely, did not feel like this was something worth mentioning. The people and the departments that were affected the most by the FVO and hence saw it as a problem all had a slightly negative attitude toward the change. However, Swedbank Markets who did not have any significant problems at all had a positive attitude to the change and looked forward to the change since they wanted to use the new valuation rules.

We found that the differences in answers and opinions depend a lot upon what position the interviewees have, which department they work for and how affected they are by the change. All this has significance into their answers and one should have this in mind when reading and analysing the results presented.

5.2 Organisation

According to Jaffee (2001) organisations can be analysed from two different levels. Our analysis has to be done at an interorganisational level since it considers organisations as open systems and our thesis deals with Swedbank's external environment i.e. the change in accounting standards. Further, it is probably impossible to analyse an organisation as a closed system today since all companies are more or less required to deal with external forces such as societal rules and structures. If Swedbank would have been a closed system they would not have been affected by these new standards.

5.3 Organisational change

The two approaches to organisational change described by Beer and Nohira (2000) are two extreme opposites that explain how an organisation handles changes. In our opinion the changes that they discuss are often deliberate and not forced by law as the change to the IFRSs was. We wanted to use these approaches to organisational change and see whether they were applicable to Swedbank's situation. From our empirical findings we argue that the change to the IFRSs within Swedbank should be analysed from a Theory E perspective. Swedbank had as a motto to not let the change affect the way they do business. This was a change in accounting rules and we agree that accounting procedures within a company should not have an affect on the business. Swedbank used external resources when needed but had most of the knowledge and experience in-house to handle the change. By using as much internal resources as possible they could create shareholder value by minimising costs and hence maximising economic value. Swedbank created a project group that would handle the change and only the people directly involved with the change or people with specific knowledge within the affected areas were included in this project group. Since Swedbank was working on a deadline it would have been too costly and time consuming to include too many employees from all levels of the organisation in the decision-making process.

The change to the IFRSs is a change in the structure and system of the organisation and considering the complexity of the standards and the knowledge needed it is more suitable to be conducted top down than bottom up. The change to the IFRSs is an organisational change on a regulatory level and does not affect all the employees within Swedbank. It might therefore be questionable if it is even appropriate to include lower level employees since the only affect they might see is minor changes to their work tasks e.g. book-keeping on new accounts or valuing transactions in a different way. In Swedbank accounting changes are appearing continuously and they have an in-house expert in Henrik Bonde to handle these kinds of changes. One can argue that the employees recognise his skills and do not feel the need to be involved in these kinds of changes. From the interviews one can also interpret that although on paper only a few people were involved in the project group they still gathered feedback from other employees when they felt that they needed a new perspective to the problem at hand.

The concept of Theory O does not fit to Swedbank's situation according to us. In our case we also felt that it was not necessary to combine the two approaches in order to succeed with the change and for Swedbank to be able to compete in the long-run. We also feel that due to the regulatory aspect of the change the goals of these two approaches as explained by Beer and Nohira (2000) are not appropriate to our case. Swedbank did not do this process to reach any of the goals that is stated by Beer and Nohira (2000); to show a profit, survive or create a learning organisation; it was merely to change the accounting standards that Swedbank has to apply by.

From our analysis we have found that these theories are not applicable to all kinds of organisational changes; it is highly dependent on what kind of change one is doing. This is because a change that is not voluntary might not have the same goal as a chosen change.

The goal is rather to create a smooth transition with as little effect on the business as possible. These two approaches probably fit better to chosen organisational changes than a forced regulatory change.

5.3.1 Continuous and discontinuous changes

Swedbank has continuously done gradual changes to the IFRSs when following the Financial Supervisory Authority's adaptation to the IASs. This according to Henrik Bonde made the transition process smooth and in his opinion the change was not particularly big. He as well as we recognise that the change to the IFRS was a discontinuous change since it occurred as a one-off event. On the other hand Christer Westholm's opinion was that the change to the IFRSs was big and although they gradually had adapted to the IASs it was still a big change that required a lot of extra resources. Swedbank has adapted to the IASs for a long time but the change to the IFRSs was the official conversion to that standard and now a new time comes when Swedbank will do continuous changes to these new standards. Henrik Bonde talks about even bigger changes that will take place in 2009 but these are according to us just gradual changes to the IFRSs and not a completely new standard like this implementation was.

5.4 Accounting change and resistance to change

Scapens and Burns (2000) claims that when new rules are implemented in an organisation they will be affected by the ones that are already in place. When the IFRSs were implemented in Swedbank the options they chose was to a high degree affected by the existing business procedures, one example of this is the FVO. Due to Swedbank's large amount of mortgages hedge accounting would have been too complicated for them so that was never really an option for them so they decided to use FVO instead. By including many of the top internal resources in the project group Swedbank made sure that enough resources were put aside for the implementation process. The people involved in the project group all had a managing position in the department that they represented and hence the new rules and routines would be legitimised. Therefore the implementation process totally depended on the decisions made by the project group.

From our point of view, there is not much point in resisting a change that is forced upon the organisation by law since it is something that the organisation has to do. None the less, there might be some resistance and this can further complicate the implementation process. From our findings we could not see any resistance to the implementation process. However, when the FVO was taken away as an option, Swedbank did not try to find another solution and we interpret this as resistance to change and adapt to the other options in the standard. We believe that this resistance was due to the complications that would arise if they had switch to hedge accounting instead. If the FVO would not have been reintroduced they would have had to come up with a solution to this problem in a short period of time, regardless of the resistance. This could have led to the involvement of more external and internal resources, hence affecting the business in a way that was not desirable.

Scapens and Burns (2000) talks about three kinds of resistance. The first resistance deals with conflicting interests within the organisation. Since the different departments were represented in the project group that handled the change they all got to put their views on the table. Further, Swedbank had as a goal for this process to not let it affect the business and when a group has a common goal they are probably less likely to argue. The second resistance was due to lack of knowledge. Swedbank solved this by educating the staff so that they knew what was going to happen and what effects this would have on them. The third resistance they mention is due to conflicts in existing ways of doing things. Due to the continuous accounting changes we would like to argue that Swedbank does not have a ´way of doing things´. The accounting environment has changed a lot and the people working with this have probably got used to this and are therefore not likely to resist this change either.

Dawson (2003) identifies four elements of resistance to change and from our findings none of these elements were apparent in Swedbank. We can therefore conclude that there was no resistance to this particular change as according to Dawson. We believe that this is mostly due to the fact that the change was forced by law and they did not have any choice to implement or not. These types of changes will probably never change the employees work situations drastically and at most it will have an increase on work load for a period. A change like this is therefore not likely to be subject to resistance among the employees.

5.5 Implementation of the IFRSs

5.5.1 Rippe's model

Phase 1: planning and preliminary analysis

Due to the continuous changes in accounting procedures over the last decade Swedbank have been updated on the new standards and early had a notion on what departments that would be represented in the project group that would handle the implementation process. With their experience they would have know what areas that would be affected the most and what was going to be the most problematic. We could not find any evidence that they did a study at this point to decide more on what needed to be done and who would be selected for the project group. This can be because Swedbank believed to be well prepared and had a good feeling about what had to be done and hence they did not feel that it was necessary to organise anything at this point in time. Swedbank did not to our knowledge do a thorough analysis over the existing accounting procedures and as we see it they did not do any evaluation of the IT-system until the project group was put together.

Phase 2: project organisation and beginning

When the project group were put together with Pia Heldesjö as project leader it represented the top internal resources Swedbank had when it came to implementing the IFRSs. Group Finance with their skills and knowledge would have been an important source in order to help find the right people for the project group. The project group did a pre-study to locate what problems Swedbank had in order to find solutions to these. External resources as well as internal was used to map out the gaps between the existing procedures and the new ones. For Swedbank it was only relevant to use external resources in the beginning of the process to provide them with guidelines for how to continue with the process. Since banks are so specialised it would probably have been very difficult for Swedbank to use more external resources. Banks are special in that almost 90 % of their business is financial instruments and it requires that they have in-house specialists that work with this fulltime. We believe that a change like the one to the IFRSs that will among other things change the way these financial instruments are valued will most likely be handled more efficiently within the organisation than with help from external resources that might not have the same competence. Swedbank did however make sure that they used their external auditors to check up on their choices and how they accounted for everything. At this stage Swedbank approached Stefan Nilsson and Deloitte to quality assure the process. This is not only done as a safety but it is also important so that the auditors can make their auditing easier.

Swedbank educated the key members of the staff that was affected by the change. Most of the education that was needed had to do with financial instruments since this concerned many of the people within the bank. Swedbank also looked at their existing IT-system for possible upgrades and changes.

Phase 3: evaluation and analysis

When the FVO that had been an option in the standard from the beginning had been taken away it resulted in that Swedbank had to use a part of the standard that they had not fully evaluated since they did not see it as an option for them. But in November 2005 the FVO was reintroduced in the standard and the problem was solved. An interesting question though is what Swedbank would have done if the FVO was not reintroduced. It seems to us that Swedbank did not show much effort in evaluating or trying to find another option, instead they waited for the FVO to be reintroduced.

All the different solutions and options that were put forward by the project group were presented to the financial committee that took the decisions but the board had the final saying. From our point of view the decision-making process within Swedbank was well organised from the project group all the way up to the board. To really make sure that the decisions are not going to be questioned afterwards, Swedbank made sure that all the right people were involved in taking the decisions. The project group needed to get their approval from the financial committee and in doing so they made sure that the project group could not act on their own and finally the financial committee needed to get a formal approval from the board. Since the board is the one who has the ultimately responsibility to the shareholders it is important that the decisions they take are well anchored in the organisation. We can conclude that the chain of decisions seem to have been very good.

Phase 4: implementation

It was not until 2005 that Swedbank started to account according to the IFRSs and they began by calculating all the new values. They also created the annual report according to the new rules. The challenges with conducting the annual report to the new standards were the interpretation and translation of the standards. The hard thing is not to disclose what choices one has made but to make the annual report understandable to the users. Due to the complexity of the standards we believe that it does not matter how much one prepare for the change it is when one start to produce the annual report that the problems of how an annual report should look and how you should disclose the extra information arise. In Swedbank the work with producing the annual report was mainly done by Henrik Bonde and Yvonne Germer. To their help they used templates produced by Ernst & Young but when that was not sufficient they looked at other banks within the EU that had already changed to the IFRSs.

Swedbank did no such thing as an evaluation of the end result or the implementation process. Stefan Nilsson confirms by saying that many companies are very bad at this and no one ever does it. We believe that never is probably not what Stefan means but we have the same feeling that nobody ever seems to want to do an evaluation after a big implementation. Whether this is because of fear of not wanting to know the truth about it or just the fact that one does not have the effort after the implementation to do it we do not know. It is probably different for different companies but when it comes to Swedbank we believe that they did not feel that it was necessary to evaluate the implementation process since it went so well according to them.

5.5.2 Conclusion to Rippe's model

When analysing the model by Rippe and the implementation process of the IFRSs in Swedbank there are many similarities. However there are also some deviations from the model. Since there are continuously accounting changes within the bank sector they probably did not need to do a thorough analysis of their existing accounting procedures since the changes keep them up to date with what they do. It is also the case since it is a bank and they work with and value their financial instruments every day it is not a big of a deal to do these changes as it might have been to a manufacturing company that rarely uses their financial instruments. Swedbank had a natural preparation for this change and this is one of the reasons why the implementation process went smoothly.

Considering the fact that the standards were not finished when Swedbank started the implementation process, involving too many people in the decision-making process had probably been too time-consuming and not efficient enough. The people that were involved in the project group were the people that were best suited for this change. Although the standard was not finished at that point we believe that Swedbank knew that even if the standard would change before the implementation date the project group would be the best suited for this. In situations like this it is important to be flexible and to have a tight work group and we believe that involving more people than necessary will slow this process down.

The only problem that was emphasised as being a problem was the FVO. The FVO was not a problem per say but the fact that they could not use it for the first three quarters of 2005 was a big problem for them. Although they knew that the standards were not finished it seems to us that they did not put enough analysis into the other options or the possibility that the FVO might be taken away from the standard. Further, when the option was taken away Swedbank did not seem to put much resource on creating a solution that would last in the long-run but in a coldly calculated manner waited for the FVO to come back as an option in the standard. If FVO had not come back Swedbank would probably have been affected badly and it could have affected their results in the end. The interviews indicate that they had negative effect during the time they did not use FVO but that they was recalculated in the end so no effects could be seen when FVO came back. This is kind of interesting since they had as a motto to not let this process affect their business, but if FVO had not been reintroduced the inconsistencies that they saw in the first three quarters of 2005 would have remained and this would have effected the result in the end. Swedbank did then run a risk during 2005 and maybe spilling over to 2006 that they would have been affected so badly by this change that it would have been negative for the business. In a case like this we feel that it was a rather large risk they took during 2005 just waiting in FVO and not actively working to find a solution if the worse case scenario had come true. A different outcome and Swedbank would have run into a lot of more difficulties due to bad preparation.

Swedbank never did an evaluation of the process which we find interesting since accounting changes are common in the bank sector and knowing the best way to implement these kinds of changes would help in the future, especially since Henrik anticipate even bigger changes in the standard in 2009.

The implementation process of the IFRSs in Swedbank was done from a top down perspective since the legal entities did not account according to the IFRSs. However, from 1st of January 2007 the legal entities will use the IFRSs as well. When we contacted people from Swedbank that were not included in the project group they did not know much about the implementation process and there might have been a lesser understanding of the IFRSs due to this. However, when it came to collecting all the information needed in the implementation process it did not seem to be a problem since the project group represented many of the departments at Swedbank. The top down approach requires less external help and than the bottom up approach and there is no doubt that Swedbank used little external help when implementing the IFRSs.

5.6 Final thoughts

Stefan Nilsson (2007) mentions the four most important steps he has found when working with implementation processes in different companies. When analysing these four steps to the implementation process of Swedbank we find it interesting that they skip two of these steps but still successfully manage to implement the new standards. Based on this one can question if all the steps Stefan includes are necessary or if evaluation and documentation is only something that one does to be able to show others what they have done. Are these two steps really relevant to the implementation process? In Swedbank's case it did not have any noticeable effects and we do not believe the outcome to be any different if they had done more documentation or evaluation. So when analysing this process the two steps does not seem to fill any function. Hayes (2002) goes a bit further than Stefan and says that if you do not follow all the steps in the change process the change is seen as inefficient. Even if it is very clear that Swedbank did not follow any of these models to the fullest we can not say that they have done an inefficient process.

The model created by Sandquist and Sidorsson (2006) does not fit to Swedbank at all since Swedbank did have a project group and we did not find Swedbank to underestimate the time that was needed to prepare nor the complexity of the annual report. We do not feel that Swedbank underestimated the required resources needed for the implementation process either. They have used the resources needed and have not run in to any problems due to lack of resources as we can see it. The problem Swedbank had with FVO was out of their control and had nothing to do with resources or education. Swedbank did fit better to Rippe´s model with the exception of an evaluation process.

Jan Buisman (2006) has a similar opinion as Sandquist and Sidorsson (2006) and that was that after the first year many companies failed to disclose the appropriate amount of information in the annual report. We have chosen not to look and analyse the annual report since the purpose was to look at the implementation process and not what the annual report says. However, Swedbank did not do any significant changes in their annual report from 2005 to 2006 and we interpret this as they think they disclosed the right information from the beginning.

Stefan Nilsson (2007), Johan Rippe (2001), Jan Buisman (2006) and Sandquist and Sidorsson (2006) all say that many companies underestimate the implementation process and how big of a change it can be. This does not seem to be the case for Swedbank who we believe had a relatively smooth ride, they did the right preparation and chose the right people in order to get a good implementation process. What is astounding though is that it all could have fallen if the FVO was not approved. In our opinion Swedbank got lucky because it could have looked completely different with another FVO outcome.

6 Conclusion

How was the process of the change in accounting procedures to the IFRSs done in Swedbank?

Swedbank's implementation process started with the creation of the project group that took on resolving this change. The group started with doing a pre-study to find the different problem areas and to map the gap between the new IFRS and the Swedish GAAP, they had help from their auditing firms to do this. The located problem areas and challenges and then tried to find solutions to this by choosing the options that suited Swedbank best from the standard. The resources they used was mainly in-house but as previously mentioned some external help was used as well. Throughout the whole implementation process continuous education was undertaken so that the personnel would know what was going to happen and so that they would understand the new standards. The education was mostly done in-house since Swedbank felt that the workshops that were provided by the accounting firms were too general for their problems. After having found solutions they collected all the information and calculated the different values and started the implementation process. The process was ended when the annual report was put together according to the new standard and all the new information and choices needed to be presented to the users in an understandable way.

Below we have created a simple model to outline the steps that Swedbank took in the implementation process.

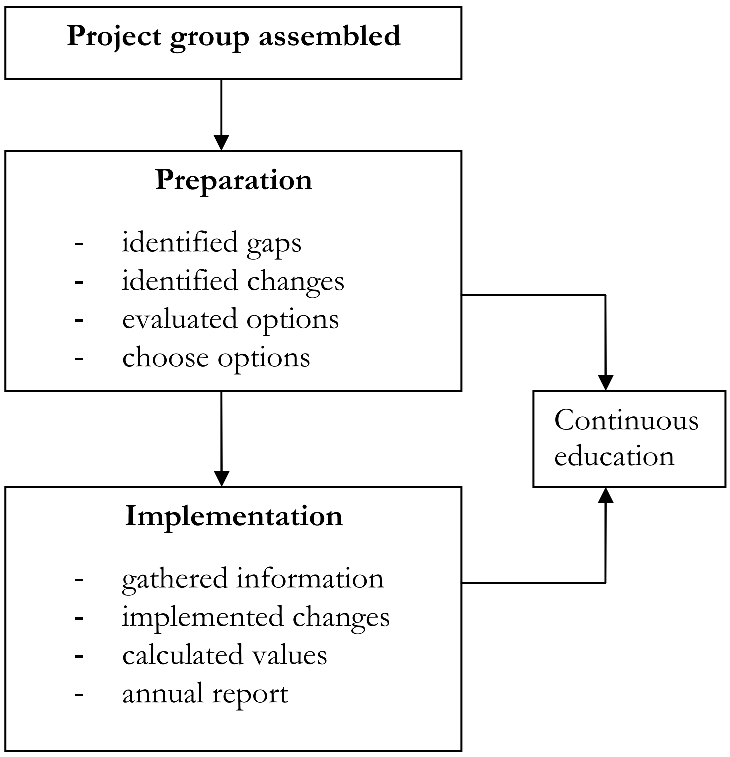

Figure 4 Swedbank's implementation process

Did any problems or obstacles occur when implementing the IFRSs in Swedbank and what were these?

The main problem Swedbank ran into was when the FVO was removed as an option in IAS 39. This resulted that they had to use a temporary solution since there was no time for them to customise a new option that would fit them, if that was even possible at all. We recognise that there was no time for them to create a new model that would work for 2005 but even if no other solution would have been as good as FVO they should have at least tried to find a solution for the long run if FVO had not come back. With Hypotek's specialised problems they found that there was no other solution that would work for them. The problem lay in the valuation, that they no longer could market value everything since this option has been taken away. So while they waited for FVO to come back they had to live with the inconsistencies that this created during the most part of 2005. When the option was approved again it basically solved everything for Swedbank and in the end they saw no affects on their result. They had some minor problems during the implementation process with finding the right solutions, considering the standard was changing during this time this was not easy.

6.1 Discussion

It seems that the bank sector in Sweden was well prepared for this change since banks use financial instruments in their every day business and comparing that to a manufacturing company that does not, a change in a financial reporting standard will then probably be much easier to implement for a bank than others. Another aspect to consider is that since banks are mainly affected by IAS 39 and IFRS 7 and not as much of the other areas such as goodwill they are limited to how much they are affected by IFRSs. What we can interpret from our findings is that the bank sector seem to be so special when in comes to financial accounting that a lot of the previous studies and predictions does not fit in our situation.

One thing that came to our attention when doing this research was that one of the goals for this standard i.e. making it easier to understand the information given, seems to have gotten the opposite effect. What the people we interviewed felt was that it was now more difficult for the users to understand the annual report and what companies are doing financially today. The common feeling is that it is harder to compare banks in Sweden but easier than before to compare banks in the EU .

6.2 Further research

It does not seem as anyone have done an investigation into the bank sectors implementation process but rather kept it general and then it has been more fitted towards other industries. It would be interesting to do a thorough analysis of the banks and the financial institutes in Sweden to see if their implementation process went as smoothly as Swedbank's.

What would also be interesting is to investigate if the comparability of banks in Sweden has decreased and maybe also look internationally and see if it is easier to compare and more understandable today than before.

6.3 Reflections

One aspect of the thesis that could have strengthened our findings would have been if we would have been able to interview some people from the treasury department in Swedbank. Unfortunately it was felt from Swedbank's point of view that they were to busy and that we should not disturbed them, they did not want to give us any names and this was of course something we had to respect. We think that their view would have given a full investigation into the areas most affected by this change.

One thing that also surprised us a bit is how quickly people forget, even if the implementation was only two years ago and the preparation phase three to four years ago the people we interviewed had already forgot a lot about the process and really had to think in order to answer our questions. One can reflect upon if we would have gotten more thorough answers if asking the same questions directly after the process in the beginning of 2006.

When it comes to the interviews we have done we feel that we could not have got hold of any better persons to answers our questions on the implementation process, we talked directly to the people in charge of the process, the ones making the decisions and also being responsible for that the implementation would go smoothly.

6.4 Acknowledgements

We would like to thank Henrik Bonde for meeting us and helping us to figure out what we could write about and also giving us further contacts within the bank. A special thanks to Pia Heldesjö for all her time and effort to help us get more empirical findings to use in this thesis. We also appreciate the help from Christer Westholm who was able to give a more managerial point of view for this research. Thank you to Yvonne Germer and Camilla Runelöf for taking the time to do interviews with us. Finally we would like to thank Stefan Nilsson who took time out of his very busy schedule to help build a picture of what Deloitte does in an implementation process as well as giving some insight to what they did in Swedbank.

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Appendix 1 – Interview questions Swedbank

Questions for the interviewees within Swedbank.

- What was your role in the implementation process?
- When did you start the process?
- Were you well prepared for the implementation of IFRS?
- How did you conduct the implementation process?
- Who was involved in the process?
- Was there any problems before/during/after the implementation? If, in what areas did you encounter problems and why?
- What changes did you have to do? Were these changes big?
- Did you need to use any external resources or did you only use internal resources?
- Was there any special group put aside for this occasion or did the regular accounting department handle the process?
- What kind of education was needed? Was it conducted in-house or by external resources?
- Did you need to change you IT system due to the new standard?
- What were the costs for implementing IFRS? What factors increased the costs?
- Was the implementation process time-consuming? If, in what way?
- Was it necessary to replace the national standard?
- Is this a better standard? If, in what way?
- Was there a positive attitude towards IFRS before the implementation? If or if not did this affect the implementation process and the potential problems you faced?
- How will the new standard affect your work, and why?
- How did the implementation process go? Was it a smooth transition or not?
- What experience do you have from accounting changes earlier? How was this change in comparison to previous changes?

Appendix 2 – Interview questions Deloitte

Questions for Stefan Nilsson at Deliotte

- What was your role in the implementation process?
- Did you participate from the start?
- How may people from Deloitte participated in the implementation process of IFRS in Swedbank? How much extra workload and time did it require.
- What kind of knowledge did you transfer to Swedbank?
- What kind of areas was identified or did you identify as challenges in the implementation process?
- What aspects are important to think about when doing a change like this when it come to preparations, start the process, during the process and evaluations?
- What tools did you use to structure the work process?
- Are there any special circumstances that apply to banks in comparison with other types of organisation in an accounting change like IFRS?
- What was the final result in the annual report and how did you help structuring the work process?
- Was there any evaluation done at the end of the process?
- How was your attitude to the change and what was the general attitude within the bank sector?
- What changes do you see in the future for IFRS?

Appendix 3 – Questionnaire to Swedbank

Questions regarding the implementation of IFRS

Name:

Title and work task:

How were you a part of the implementation process?

- Did you get increased costs due to the implementation of IFRS? If yes, what and how much?
- Has the need for accounting services increased due to IFRS?
- Did you need to use external resouces, e.g. more consulting services due to the implementation? If yes, how much?
- Have you hired more personnel? If yes, in what areas.
- Has the workload increased for the employees? If yes, how much approximately.
- Have you educated the staff? If yes, what have those educations covered.
- If you have had increased costs during the implemenatation process, do you think they will increase, stabilise or decrease?
- How do you feel the implemenation process of IFRS went? Describe shortly; good, bad, or no difference? Why do you feel this way?
- If there were any problems were did they come from and why do you think they came from there

Appendix 4 – Summary of IAS 39

Definitions [IAS 39.9]

Financial instrument: A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset: Any asset that is:

cash;

an equity instrument of another entity;

a contractual right:

to receive cash or another financial asset from another entity; or

to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

a contract that will or may be settled in the entity's own equity instruments and is:

a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial liability: Any liability that is:

a contractual obligation:

to deliver cash or another financial asset to another entity; or

to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

a contract that will or may be settled in the entity's own equity instruments

Common examples of Finanicial instruments within the scope of IAS 39:

- Cash
- Demand and time deposits
- Commercial paper
- Accounts, notes, and loans receivable and payable

- Debt and equity securities. These are financial instruments from the perspectives of both the holder and the issuer. This category includes investments in subsidiaries, associates, and joint ventures

- Asset backed securities such as collateralised mortgage obligations, repurchase agreements, and securitised packages of receivables
- Derivatives, including options, rights, warrants, futures contracts, forward contracts, and swaps.

A derivative is a financial instrument:

Whose value changes in response to the change in an underlying variable such as an interest rate, commodity or security price, or index;

That requires no initial investment, or one that is smaller than would be required for a contract with similar response to changes in market factors; and

That is settled at a future date.

Common examples of Derivatives within the scope of IAS 39:

- Forwards: Contracts to purchase or sell a specific quantity of a financial instrument, a commodity, or a foreign currency at a specified price determined at the outset, with delivery or settlement at a specified future date. Settlement is at maturity by actual delivery of the item specified in the contract, or by a net cash settlement.

- Interest Rate Swaps and Forward Rate Agreements: Contracts to exchange cash flows as of a specified date or a series of specified dates based on a notional amount and fixed and floating rates.

- Futures: Contracts similar to forwards but with the following differences: Futures are generic exchange-traded, whereas forwards are individually tailored. Futures are generally settled through an offsetting (reversing) trade, whereas forwards are generally settled by delivery of the underlying item or cash settlement.

- Options: Contracts that give the purchaser the right, but not the obligation, to buy (call option) or sell (put option) a specified quantity of a particular financial instrument, commodity, or foreign currency, at a specified price (strike price), during or at a specified period of time. These can be individually written or exchange-traded. The purchaser of the option pays the seller (writer) of the option a fee (premium) to compensate the seller for the risk of payments under the option.

- Caps and Floors: These are contracts sometimes referred to as interest rate options. An interest rate cap will compensate the purchaser of the cap if interest rates rise above a predetermined rate (strike rate) while an interest rate floor will compensate the purchaser if rates fall below a predetermined rate.

IAS 39 Fair Value Option

IAS 39 permits entities to designate, at the time of acquisition or issuance, any financial asset or financial liability to be measured at fair value, with value changes recognised in profit or loss. This option is available even if the financial asset or financial liability would ordinarily, by its nature, be measured at amortised cost – but only if fair value can be reliably measured. Once an instrument is put in the fair-value-through-profit-and-loss category, it cannot be reclassified out

Hedge Accounting

IAS 39 permits hedge accounting under certain circumstances provided that the hedging relationship is: [IAS 39.88]

formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness; and

expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured.

Hedging Instruments

All derivative contracts with an external counterparty may be designated as hedging instruments except for some written options. [IAS 39.72-73]

An external non-derivative financial asset or liability may not be designated as a hedging instrument except as a hedge of foreign currency risk. [IAS 39.72]

A proportion of the derivative may be designated as the hedging instrument. Generally, specific cash flows inherent in a derivative cannot be designated in a hedge relationship while other cash flows are excluded. However, the intrinsic value and the time value of an option contract may be separated, with only the intrinsic value being designated. Similarly, the interest element and the spot price of a forward can also be separated, with the spot price being the designated risk. [IAS 39.75]

Hedged Items

A hedged item can be: [IAS 39.78]

a single recognised asset or liability, firm commitment, highly probable transaction, or a net investment in a foreign operation;

a group of assets, liabilities, firm commitments, highly probable forecast transactions, or net investments in foreign operations with similar risk characteristics;

a held-to-maturity investment for foreign currency or credit risk (but not for interest risk or prepayment risk);

a portion of the cash flows or fair value of a financial asset or financial liability; or

a non-financial item for foreign currency risk only or the risk of changes in fair value of the entire item.

in a portfolio hedge of interest rate risk (Macro Hedge) only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

Effectiveness

IAS 39 requires hedge effectiveness to be assessed both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

All hedge ineffectiveness is recognised immediately in the income statement (including ineffectiveness within the 80% to 125% window).

Categories of Hedges

A fair value hedge: is a hedge of the exposure to changes in fair value of a recognised asset or liability or a previously unrecognised firm commitment to buy or sell an asset at a fixed price or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The gain or loss from the change in fair value of the hedging instrument is recognised immediately in profit or loss. At the same time the carrying amount of the hedged item is adjusted for the corresponding gain or loss with respect to the hedged risk, which is also recognised immediately in net profit or loss.

A cash flow hedge: is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss. [IAS 39.86]

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and recycled to the income statement when the hedged cash transaction affects profit or loss. [IAS 39.95]

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any gain or loss on the hedging instrument that was previously recognised directly in equity is 'recycled' into profit or loss in the same period(s) in which the financial asset or liability affects profit or loss. [IAS 39.97]

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, then the entity has an accounting policy option that must be applied to all such hedges of forecast transactions: [IAS 39.98]

> Same accounting as for recognition of a financial asset or financial liability – any gain or loss on the hedging instrument that was previously recognised directly in equity is 'recycled' into profit or loss in the same period(s) in which the non-financial asset or liability affects profit or loss.
>
> 'Basis adjustment' of the acquired non-financial asset or liability – the gain or loss on the hedging instrument that was previously recognised directly in equity is removed from equity and is included in the initial cost or other carrying amount of the acquired non-financial asset or liability.

A hedge of a net investment in a foreign operation as defined in IAS 21 is accounted for similarly to a cash flow hedge. [IAS 39.86]

A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.

Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk (Macro Hedging)

IAS 39 allows fair value hedge accounting to be used for a portfolio hedge of interest rate risk (macro hedging) as follows:

1. The entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may include both assets and liabilities.

2. The entity analyses the portfolio into time periods based on expected, rather than contractual, repricing dates.

3. The entity designates the hedged item as a percentage of the amount of assets (or liabilities) in each time period from step 2. All of the assets from which the hedged amount is drawn must be items (a) whose fair value changes in response to the risk being hedged and (b) that could have qualified for fair value hedge accounting under IAS 39 had they been hedged individually. The time periods must be sufficiently narrow to ensure that all assets (or liabilities) in a time period are homogeneous with respect to the hedged risk – that is, the fair value of each item moves proportionately to, and in the same direction as, changes in the hedged interest rate risk.

4. The entity designates what interest rate risk it is hedging. This risk could be a portion of the interest rate risk in each of the items in the portfolio, such as a benchmark interest rate like LIBOR.

5. The entity designates a hedging instrument for each time period. The hedging instrument may be a portfolio of derivatives (for instance, interest rate swaps) containing offsetting risk positions.

6. The entity measures the change in the fair value of the hedged item (from step 3) that is attributable to the hedged risk (from step 4). The result is recognised in profit or loss and may be presented in one of two ways in the balance sheet:

   a. As an adjustment of the carrying amount of the hedged item

   b. As a separate line item in the balance sheet. The balance sheet line item depends on whether the hedged item is an asset (in which case the change in fair value is reported in a separate line item within assets) or is a liability (in which case the value change is reported in a separate line item within liabilities). This separate balance sheet line item is presented on the face of the balance sheet adjacent to the related asset(s) or liability(ies).

7. The entity measures the change in the fair value of the hedging instrument and recognises this as a gain or loss in profit or loss. It recognises the fair value of the hedging instrument as an asset or liability in the balance sheet.

8. Ineffectiveness is the difference in profit or loss between the amounts determined in step 6 and step 7.

A change (up or down) in the amounts that are expected to be repaid or mature in a time period will result in ineffectiveness. That ineffectiveness is the difference between (a) the initial hedge ratio applied to the initially estimated amount in a time period and (b) that same ratio applied to the revised estimate of the amount.

Demand deposits and similar items with a demand feature (such as a bank's 'core deposits') cannot be designated as the hedged item in a fair value hedge for any period beyond the shortest period in which the counterparty can demand repayment. Thus deposits payable immediately on demand are not eligible for hedge accounting.

Discontinuation of Hedge Accounting

Hedge accounting must be discontinued prospectively if: [IAS 39.91 and 39.101]

the hedging instrument expires or is sold, terminated, or exercised;

the hedge no longer meets the hedge accounting criteria - for example it is no longer effective;

for cash flow hedges the forecast transaction is no longer expected to occur; or

the entity revokes the hedge designation.

If hedge accounting ceases for a cash flow hedge relationship because the forecast transaction is no longer expected to occur, gains and losses deferred in equity must be taken to the income statement immediately. If the transaction is still expected to occur and the hedge relationship ceases, the amounts accumulated in equity will be retained in equity until the hedged item affects profit or loss. [IAS 39.101(c)]

If a hedged financial instrument that is measured at amortised cost has been adjusted for the gain or loss attributable to the hedged risk in a fair value hedge, this adjustment is amortised to profit or loss based on a recalculated effective interest rate on this date such that the adjustment is fully amortised by the maturity of the instrument. Amortisation may begin as soon as an adjustment exists and must begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risks being hedged.

Disclosure

When IAS 32 and IAS 39 were revised in 2003, all of the disclosures about financial instruments that had been in old IAS 39 were moved to IAS 32, so IAS 32 Financial Instruments: Disclosure and Presentation now includes all financial instruments disclosure requirements. In 2005, the IASB issued IFRS 7 Financial Instruments: Disclosures to replace the disclosure portions of IAS 32 effective 1 January 2007, with earlier application encouraged. IFRS 7 also supersedes IAS 30 Disclosurs in the Financial Statements of Banks and Similar Financial Institutions.

June 2005 Amendment to IAS 39 – Fair Value Option

On 15 June 2005 the IASB issued its final amendment to IAS 39 *Financial Instruments: Recognition and Measurement* to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss (the 'fair value option'). The IASB developed this amendment after commentators, particularly prudential supervisors of banks, securities companies, and insurers, raised concerns that the fair value option contained in the 2003 revisions of IAS 39 might be used inappropriately. The new revisions limit the use of the option to those financial instruments that meet certain conditions. Those conditions are that: [IAS 39.9]

a. the fair value option designation eliminates or significantly reduces an accounting mismatch, or

b. a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The fair value option amendment also provides that if a contract contains an embedded derivative, an entity may generally elect to apply the fair value option to the entire hybrid (combined) contract, thereby eliminating the need to separate out the embedded derivative. Conditions (a) and (b) are not relevant to this election. [IAS 39.11A]

The amendment is effective 1 January 2006, with earlier application encouraged.