

Transition of Hungarian Companies to IFRS-based Reporting in Relation to Indicators Used in Credit Approval*

Eleonóra Tarpataki – Janka Filyó – Norbert László

Legal requirements and opportunities are prompting more and more Hungarian companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). In our study, we examine the impact of transition using typical indicators that are frequently included in financial institutions' rating criteria. We compared the balance sheet, P/L account and cash flow data of 42 companies operating in different industries, as reported in their statements prepared in accordance with Hungarian and international regulations, and concluded that although there may be significant variations at an individual level, this is not the case in terms of the median of the aggregate data. Although the introduction of the European Single Electronic Format (ESEF), which allows for uniform interpretation and automatic processing of financial statements, has also been postponed for one year in Hungary due to the pandemic, it will open new perspectives for the development of rating systems, requiring preparations by credit institutions.

Journal of Economic Literature (JEL) codes: M41, G21, G32, C21

Keywords: IFRS transition, rating, indicators, ESEF

1. Introduction

Globalisation can be observed in many areas of the economy, including accounting. One of the most readily apparent signs of this is the spread of International Financial Reporting Standards (IFRS), which are becoming mandatory, or respectively optional in more and more countries. Based on data from the International Accounting Standards Board (IASB), the use of IFRS is currently possible in 144 countries around the world (IFRS 2018; Madarasiné Szirmai – Szöllősiné Szép 2018).

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

Eleonóra Tarpataki is a Master Lecturer at the Department of Financial Accounting of the Corvinus University of Budapest. Email: eleonora.tarpataki@uni-corvinus.hu

Janka Filyó is an Assistant Professor at the Department of Financial Accounting of the Corvinus University of Budapest. Email: janka.filyo@uni-corvinus.hu

Norbert László is an Assistant Professor at the Department of Financial Accounting of the Corvinus University of Budapest. Email: norbert.laszlo@uni-corvinus.hu

The Hungarian manuscript was received on 18 May 2021.

DOI: <https://doi.org/10.33893/FER.21.1.95>

One significant milestone in this spread was the requirement, starting from 2005, for listed corporate groups in the European Union to publish their consolidated accounts on the basis of IFRS (optional for non-listed companies). In Hungary, however, in terms of individual accounts, the transition was not to occur for another decade. IFRS reporting obligations were imposed on listed companies (typically parent companies) from 2017, and then on credit institutions from 2018 (they could start one year earlier at their discretion). Apart from these entities, large enterprises (subject to audit obligations) are given the choice between the Hungarian Accounting Act and IFRS. Below this size, the transition to international accounting is currently not possible.

Research carried out during this period assessed from the perspective of businesses the most common reasons for the transition, as well as the aversions, arguments and opinions that discourage decision-makers from taking the step. Most businesses are driven to make the transition by parent company expectations and legal requirements (*Deloitte 2018*), while others seek to increase the trust of their foreign partners or future investors by preparing financial statements in accordance with international standards. While a few years ago concerns over having enough professionals to carry out the transition and the IFRS accounting work were justified, the latest data show that a considerable proportion of both chartered accountants and auditors now hold IFRS certifications and are able to meet the needs of the corporate sector in this regard.¹

The first transition opportunity opened up in 2016 for individual accounts, followed by the mandatory rounds in 2017 and 2018 for the companies mentioned above. However, several other companies have also made a voluntary transition to IFRS. Currently, this group comprises hundreds of companies, providing a sample size that allows for a statistical analysis of the effect of transition. Analysis is also facilitated by the fact that in the year of the transition, accounts under the new rules (IFRS) must be drawn up for both for the year concerned and, to provide comparative data, for the base period, affording comparisons with the reference period of the accounts drawn up according to the old rules (i.e. the Hungarian Accounting Act). Thus, companies disclosed their accounts for the same period – the business year preceding the transition – according to both sets of rules, and therefore any variations can only be attributed to the transition. An additional source of information is the Notes to the first IFRS accounts, which also explains values obtained as a result of the switch between accounting systems (*Lakatos et al. 2018*).

The number of transitioning companies is sufficient for a general, aggregated analysis, but still insufficient for the analysis to be conducted on a stratified, e.g. industry-specific basis.

¹ According to the latest data, 4.3 per cent (2,322) of the more than 53,000 chartered accountants in the Ministry of Finance register and about 6.4 per cent (262) of active auditors have IFRS certifications. See: <https://penzugyszakkepzes.kormany.hu/nevjegyzek-konyvviteli-szolgaltatast-vegok>. Downloaded: 10 May 2021.

2. Database

Unfortunately, there is no publicly accessible database of companies transitioning to IFRS, which therefore had to be built in the first step of our research. Based on consultations with experts, we formulated an initial assumption for identifying companies that have already transitioned to IFRS. We would like to thank everyone involved for their cooperation. 123 enterprises were included in the raw database, which had to be cleaned up for analysis in several respects. In the first instance, we removed companies (21) that, according to their individual accounts, had not yet migrated to IFRS at the time of analysis, and are only expected to do so later. For some of these, the consolidated accounts are already prepared on an IFRS basis, but the individual accounts of the enterprise operating as a member of the group are not. We were surprised to find several companies in Hungary with only IFRS accounts, which had not transitioned from Hungarian accounting standards. This is explained by the fact that they had recently been established, applying IFRS from the outset. Given the focus of our research on transition, we also had to remove this set from the database (15 companies). After the first round of qualification, we had a population of 87 entities with meaningful transition, i.e., accounts under both the Accounting Act and IFRS available for the year preceding the transition. The second round involved another two steps of cleaning. We removed 4 companies with special status (e.g. pre-companies, companies in bankruptcy proceedings), because we sought to focus our research on companies with continuous operations. The last round of qualification was based on the activity of the company. Seeking to restrict our analysis to companies that draw up their annual accounts according to the Accounting Act using the balance sheet and P/L account templates provided in its annexes, from the cases to be processed we eliminated companies using templates based on various government regulations (e.g. financial institutions, insurers). The latter step represented the most extensive qualification, eliminating 40 items from our database, but, as our research seeks to examine the impact of the transition in relation to the indicators used in the credit approval process for companies, the step was justified in that regard. After the filtering above, 42 companies remained eligible for analysis. While this is a relatively small set, it is significant when compared to the number of companies that have transitioned and do not pursue special activities.

As far as the year of transition is concerned, of the companies concerned, three of the companies made the transition in 2016, thirty in 2017, and nine in 2018. Although there were a significant number of transitioning companies in 2018 as well, this included many credit institutions meeting their transition obligations, which fell outside the target group of our research.

Examining the entities in our analysis by main activity, we found high diversity in terms of NACE Rev. 2, with no outstanding item numbers in any category. The companies are classified in the three major categories of activity as follows: industry 26 per cent, trade 17 per cent, and services 57 per cent.

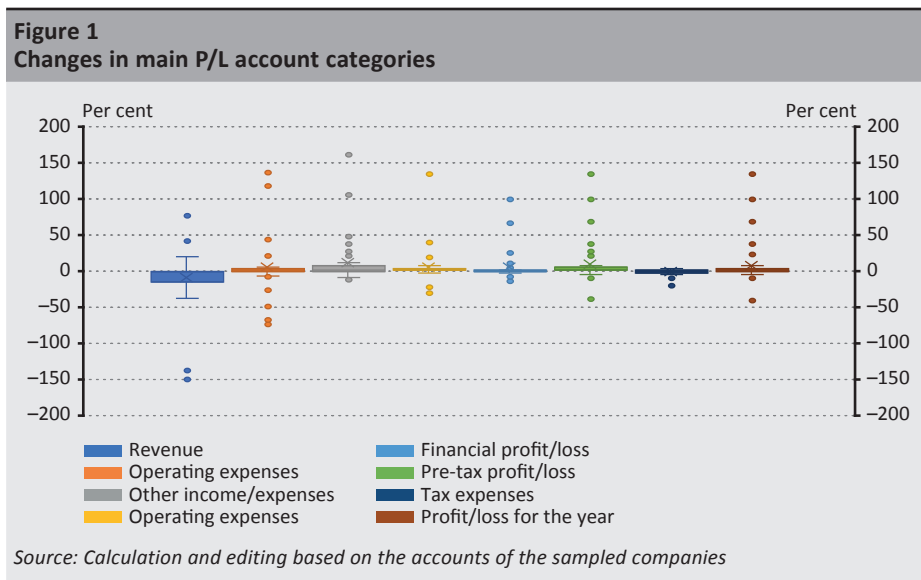
3. Identification and analysis of variations in balance sheet and P/L account data

Our analysis started with a structural examination of the main statements of the accounts (balance sheet, profit and loss account), where we explored whether the transition caused any significant changes in the main categories of these two statements. Given the differences of magnitude in the size of the companies, instead of absolute figures we examined relative values, for which our benchmark was the equity figure as reported in the accounts of the companies drawn up in accordance with the Hungarian Accounting Act.

When processing the collected data, we also prepared two box plots (*Figures 1 and 2*), as well as a table presenting averages, standard deviations and quartiles (*Table 1*). However, due to space limitations, the results obtained are presented in such detail only in the first case, for the main categories of the P/L account. In the rest of our paper, the values obtained are illustrated by means of “squeezed” box plots with outliers removed.

3.1. Profit and loss statement

Figure 1 shows the changes in the main categories of the profit and loss account attributable to the transition.



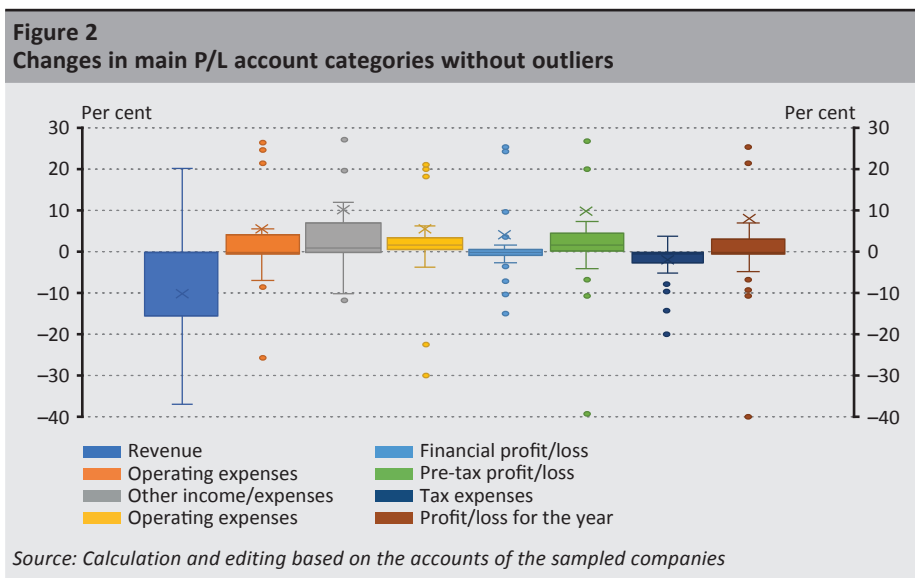
As interpretability is hindered by outliers attributable to a few special cases, *Table 1* also includes quartiles in addition to averages and the standard deviations.

Table 1
Changes in main P/L account categories (details)

	Revenue	Operating expenses*	Other income	Operating profit/loss	Financial profit/loss	Pre-tax profit/loss	Tax expenses	Profit for the year
Average	-10.1%	5.5%	10.3%	5.7%	4.2%	9.9%	-1.9%	8.0%
Standard deviation	36.0%	35.3%	30.6%	22.6%	19.4%	28.7%	4.4%	28.9%
Q1	-14.1%	-0.3%	0.0%	0.5%	-0.6%	0.3%	-2.5%	-0.5%
Q2	0.0%	0.0%	0.9%	1.7%	0.0%	1.8%	-0.3%	0.0%
Q3	0.0%	3.7%	6.2%	3.4%	0.6%	4.4%	0.0%	2.3%

Note: * Direct and indirect operating expense was derived from the total cost P/L account as follows: material expense + personnel expense + depreciation expense – own work capitalised.
Source: Calculation and editing based on the accounts of the sampled companies

Based on this, it can be established that *significant differences attributable to the transition to IFRS occur only at a fraction of the companies*, and in many cases, these only affect the internal structure, i.e. they are transfers between two subcategories, and the *final result – in this case the profit for the year – is less affected overall*. *Figure 1* is therefore also shown with the outliers eliminated (*Figure 2*).



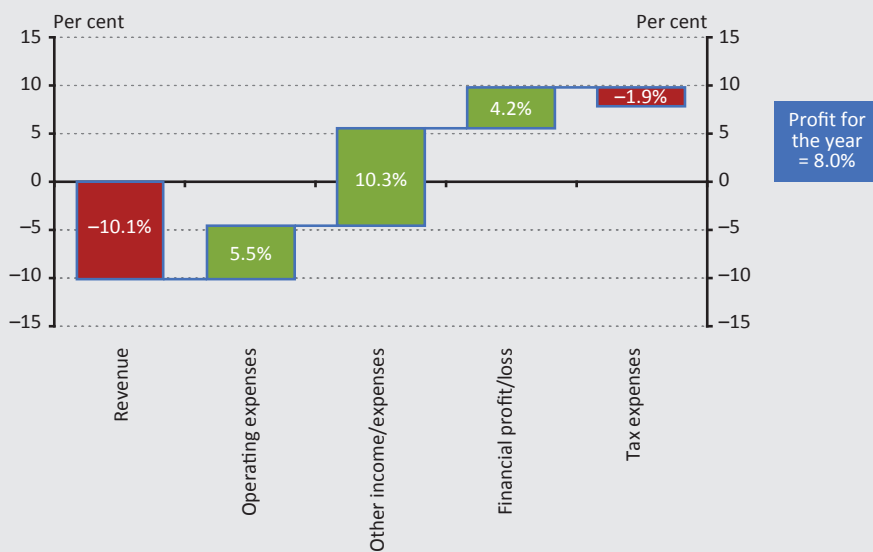
For a number of companies, the transition had no effect at all involving modification of the results. However, when the average differences are examined in terms of the highlighted lines, variations of different sizes can already be found. In IFRS accounts, the figures for revenues and for operating and other expenses decreased compared to the accounts prepared under the Hungarian Accounting Act. One of the main reasons for this is the netting requirement in IFRS, i.e. in a number of cases, revenues and expenses must be recognised in the aggregate. Such cases include, for example, the recognition of agency activities, where under Hungarian accounting standards consideration for sales is presented as revenue and consideration for purchases as expense, whereas IFRS requires the recognition of the difference between the two (agency commissions), resulting in a far lower revenue amount due to the elimination of expenses. A similar case involves the treatment of excise duty, which under Hungarian accounting standards is recognised in revenue to increase profit and in other expenses to decrease profit, whereas it is not recognised at all in profit under IFRS. Having said that, the effect of those two cases will disappear from the operating/business level onwards.

One of the reasons for variations in the financial result is that in IFRS transaction costs related to loans (e.g. disbursement fees) are not charged to profit or loss at the time of borrowing, but are used to adjust the cost of the liability, as a result of which it will become an expense over the tenor, due to the differential of effective and nominal interest rates.

With regard to tax expenses, two differences should be pointed out. One is that Hungarian accounting standards are only concerned with the actual income tax for the year, while under IFRS deferred tax also requires treatment. The other is the question of the treatment of the local business tax (HIPA), a Hungarian specialty. Under Hungarian accounting standards, that tax unambiguously belongs in other expenses, but there is no such requirement in IFRS, and depending on their interpretation, entities have a choice of two options. Under IFRS, the local business tax may either be presented among other expenses, but where interpreted by the company as an income tax, may also be presented as a tax expense. There is currently no established Hungarian practice in that regard, not even for listed companies. This optional classification could play an important role in the judgement of a management or a company, since the decision also affects calculated result categories such as EBIT or EBITDA.

Based on our analysis of our sample, we found *transition causing an average 8 per cent increase in profit for the year* (relative to equity), the aggregate effect of which in terms of the line items examined is shown in *Figure 3*.

Figure 3
Variables with an effect on profit for the year attributable to transition



Source: Calculation and editing based on the accounts of the sampled companies

This, however, can be traced back mainly to the outliers of a few enterprises, whereas a much smaller difference is obtained for the majority. There is no variation (0.0 per cent) in the median, and the interquartile range is also quite narrow, with values varying between -0.5 per cent and $+2.3$ per cent.

In the P/L account of the IFRS accounts, there are two other categories that differ significantly from the Hungarian regulations. One is other comprehensive income (OCI), which includes part of the fair value differences, separately from profit for the year. This will be transferred to equity at the end of the year. A similar solution is also available under Hungarian accounting standards, although in the latter these items are recognised directly in equity, and the scope of the assets and events concerned is also partly different. Given the absence of any direct effects on profit for the year in either accounting system, no detailed explanation will be given here. The other variation is related to the discontinued operations, an item that is disclosed separately only in IFRS accounts, while in the Hungarian version its P/L effects remain in the lines corresponding to its content, potentially causing a variation in virtually any lines within the P/L account. In the sample examined, 6 companies had other comprehensive income, and profit/loss from discontinued operations was separated in two cases, neither of which were significant.

In *Table 2*, we provide a summary of the common causes of individual variations and their effect on the indicators used in the analyses.

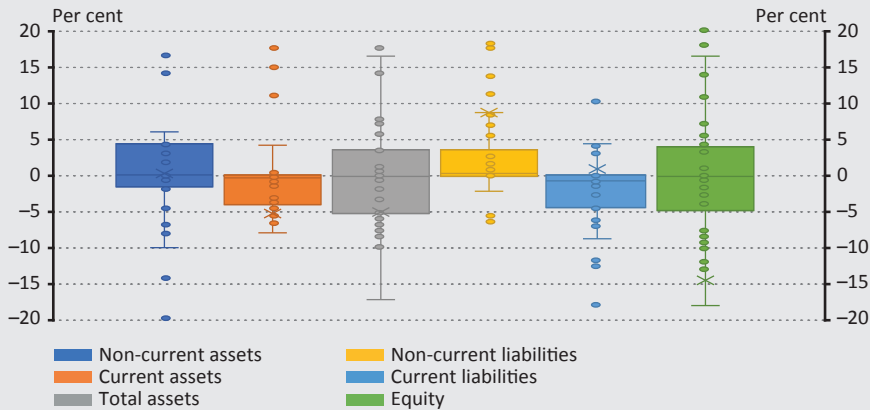
Table 2			
Most common causes of individual variations in main P/L account categories			
Economic event / key area	IFRS vs. Hungarian regulations	Hungarian P/L account items affected	Indicators influenced, with direction of effect
Agency activities	Revenue is disclosed in netted form under IFRS	Revenue, material expenses, operating expenses	Indicators related to revenue (increase due to lower base)
Excise duties	Not included in revenue under IFRS	Revenue, other expenses	Indicators related to revenue (increase due to lower base)
Local business tax	Recognised either as other expense or a tax expense under IFRS	Other expense, tax expense (chargeable tax under the Accounting Act)	Indicators based on EBIT/EBITDA (where recognised as a tax expense, indicators increase)
Discontinued operations	To be presented separately in IFRS	May affect any P/L account line	Indicators related to the P/L account (effect depending on P/L)
Depreciation	Depreciation as recognised under the IFRS leasing standard is absent in Hungarian regulations	Services contracted Depreciation	EBIT/EBITDA based indicators increase

Source: Editing based on the accounts of the sampled companies

3.2. Balance sheet

In the financial statements of the accounts, we then turned to the analysis of assets (balance sheet). In terms of the balance sheet, the fluctuations caused by transition were even smaller on average than in the case of the P/L account. Due to one or two extreme outliers, the resulting plot was even more “squeezed”. For easier interpretation, the middle of each plot was also magnified here, with extreme outliers eliminated (*Figure 4*).

Figure 4
Changes in the main components of the balance sheet due to transition to IFRS



Source: Calculation and editing based on the accounts of the sampled companies

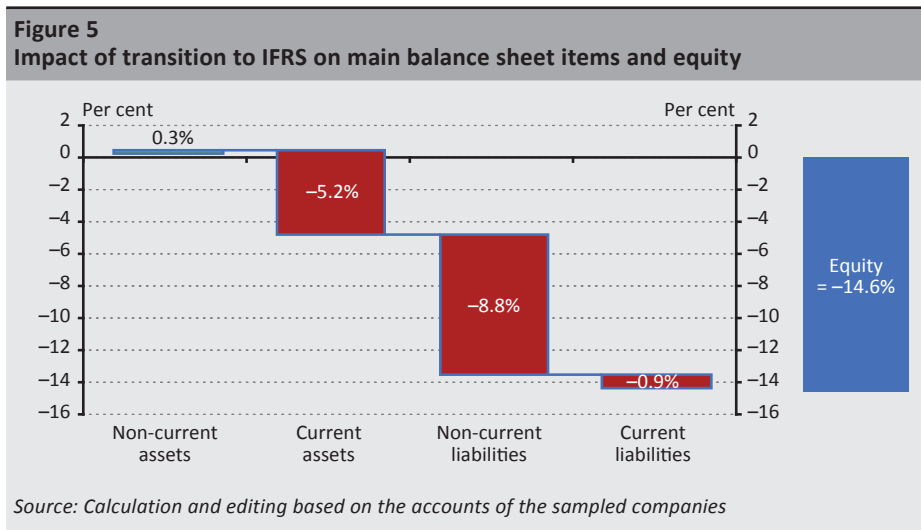
For many companies, the transition to IFRS did not entail any changes in the figures reported for the key balance sheet items. However, structural shifts can also be observed here. The analysis was made more difficult by the fact that prepayments, as well as accruals and deferred income are included in the balance sheet under the Accounting Act as a separate main group, whereas under IFRS they are typically part of current assets and current liabilities. For our analysis, we also aggregated these items in the Hungarian version, as it was not possible to separate the IFRS data. Provisions are also a separate main group in the Hungarian balance sheet, while they are liabilities under IFRS. Here the problem is caused by the fact that although reclassification could be done easily, in our analysis we would like to examine non-current and current liabilities separately. As such a breakdown of provisions is absent in Hungarian accounts and only exists under IFRS, we could only examine the latter. In doing so, we found that half of the companies do not have any long-term provisions, and the figures are typically not significant in the other half either. Consequently, for both versions we considered provisions as being part of current liabilities. This leaves us with five large balance sheet categories: fixed assets, current assets, equity, non-current liabilities, and current liabilities.

The smallest variation was found in relation to fixed assets, which may be explained by the fact that both accounting systems employ highly similar approaches in this area. Obviously, there are differences in the details, e.g. the capitalisation of establishment and reorganisation is only permitted under Hungarian accounting standards, whereas deferred tax assets are only included in the IFRS balance sheet. With current assets, the difference resulting from transition is already far greater, and the figures tend to be lower under IFRS. One of the reasons for this

is the treatment of repurchased own shares and participations. Pursuant to the Accounting Act, such items must be presented in the securities group of current assets, while under IFRS they are treated as items reducing equity from the moment of repurchase, and are thus completely disregarded in the statement of assets.

On the liability side, one major variation is due to the additional contributions paid. This is treated as equity (tied-up reserve) under Hungarian accounting standards, and as a liability under IFRS.

On both the asset and the liability side, variations may arise from different definitions of cost, for example because discounted cash flow approaches are used in IFRS, whereas there is no such approach in the Accounting Act. The effect of transition on changes in main balance sheet items is shown in *Figure 5* according to the impact on the company's equity, that is, we follow the Anglo-Saxon logic where assets – liabilities = equity, except that both assets and liabilities are subdivided into long and short items, i.e., in our equation fixed assets + current assets – non-current liabilities – current liabilities = equity.



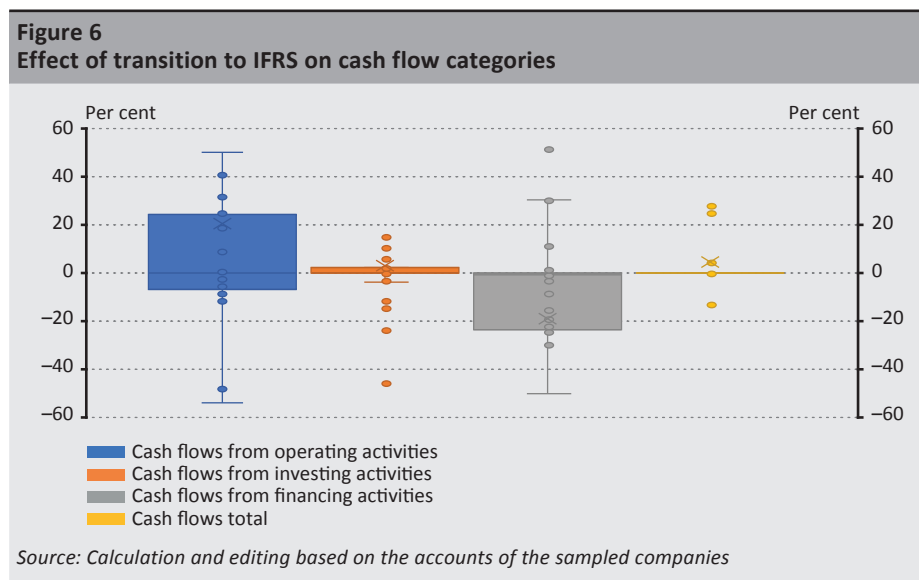
3.3. Cash flow

The cash flow statement is an essential element of the accounts, especially when it comes to credit assessment. It is included in both sets of accounts, but treated as having a different weight in each. Under IFRS, it is included as a main statement on an equal footing with the balance sheet and P/L account, while the Accounting Act requires it as part of the notes on the accounts. Unfortunately, this undervaluation is further exacerbated in practice, with many companies either failing to draw up a cash flow statement altogether (in contravention of the requirement), or relegating it to the last pages. The issue appeared in our database as well: for both

Hungarian and IFRS accounts, we found three companies each that failed to provide the mandatory cash flow statement. As a scrap of comfort, one entity was doubly “negligent” and thus only 5 cases had to be removed, leaving us with 37 companies for the purposes of subsequent analysis.

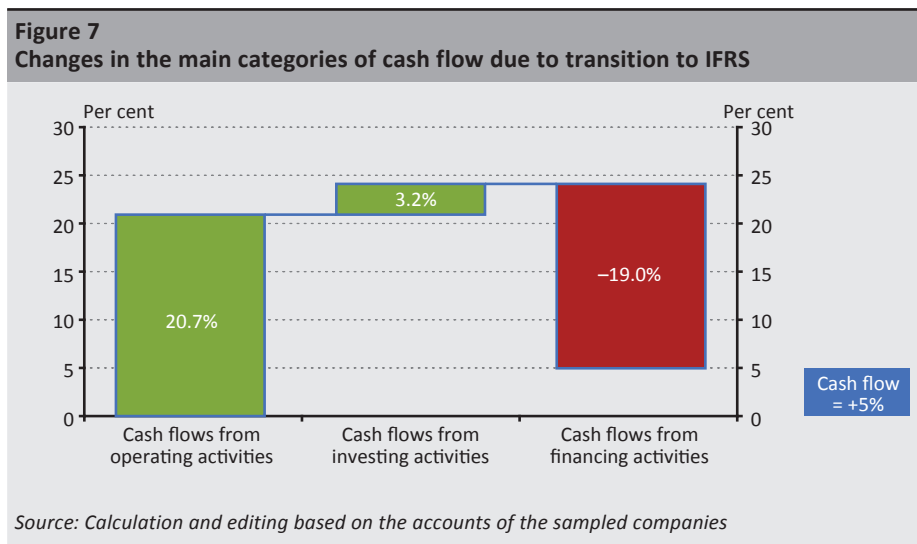
Regarding cash flow, one key question is what is meant by “cash” at all, i.e., what the basis of our statement will be, what we are looking for changes in. While the two accounting systems have different interpretations at the conceptual level, in the following we explore whether this is also reflected in practice. At 18 of the 37 companies, the value of the change in cash in the two systems is exactly the same, and in the remaining 14 cases the variation is not significant, leaving only 5 companies with any major difference. The value of IFRS cash may be higher due to cash equivalents and lower due to overdraft being construed as negative cash. However, this alone does not determine in which system the cash flow will be higher or lower; the change of the items referred to above in the given year should be taken into account.

An assessment of the values of the categories affecting the final cash flow result also points to structural shifts here. The changes are illustrated in *Figure 6*, again with the outliers eliminated.



The main rearrangements between cash flow categories are due to the classification of paid returns (dividends, interest). The Hungarian regulations require both items to be classified in the operating category, while under IFRS the entity has the option to show such either as operating or financing cash flow. With nearly all entities, dividend paid is classified in the financing part; consequently, wherever an entity

has such an item, it can almost certainly be identified as a variation. By contrast, the practice is less uniform when it comes to interest. Accordingly, no difference between the two sets of rules will result from a company opting for the operating category, while opting for the financing category will make a difference. This is illustrated in *Figure 7*.



4. Consequences of the transition with regard to indicators

The 2013 Act on Credit Institutions and Financial Enterprises requires financial institutions to develop and implement internal policies that allow for the “*soundness, transparency, risk assessment monitoring and mitigation of exposures and commitments*”.² The 2016 MNB Decree on customer and counterparty rating provides a detailed description of what this internal policy should include. In Art. 5(e), this is specified as “*the definition of quantifiable data [...] to be taken into account in the classification of customers and counterparties into rating categories, and the indicators used*”.³

The rating system is based on credit rating models, which help in making credit decisions on the one hand and in the quantification of the probability of default on the other, by assigning borrowers (as well as loans) to risk categories in accordance with the lending policy. The models operate on the basis of historical data, i.e. they take into account previous lending experience, statistical and background data,

² See Act CCXXXVII of 2013, Art. 98(1), Hungarian Legislation Database. <https://njt.hu/jogszabaly/2013-237-00-00>. Downloaded: 28 April 2021.

³ See MNB Decree 40/2016 (X. 11.), Hungarian Legislation Database. <https://njt.hu/jogszabaly/2016-40-20-2C>. Downloaded: 28 April 2021.

the depth and reliability of which is one of the most important components of the models (Walter 2019; Horváth 2021; Banai et al. 2016).

A significant proportion of the input data of the rating systems includes factual and numerical data from the accounts and written statements by customers (e.g. questionnaire, supplementary data sheet), from which different indicators are formed in the assessment process (Lucas et al. 2006). The customer rating is used, on the one hand, to determine the fees and interest rate spreads, which affects revenues, and on the other hand to allocate provisions, which affects expenses, i.e., ultimately, the development of the indicators of the customers indirectly affects the profitability of the financial institution.

At this stage, in Hungary the transition to IFRS is characteristic of large corporates. These companies are individually assessed and rated by credit institutions for risk management purposes due to the larger exposures and more complex transactions involved. However, on the basis of the current regulations, medium-size and small enterprises can also opt to prepare IFRS-based accounts, which makes it appropriate, with the above considerations in mind, to carry out periodic reviews of whether the transition causes statistically significant changes in the functioning of the assessment models.

In our first survey, we selected the data required for the indicators examined only from the publicly available individual financial statements, focusing on the year of transition, with the following limitations in mind.

Hungarian accounts are in a fixed format, while IFRS do not prescribe a precise structure for the financial statements; or, if certain items are not significant in relation to the assessment of the company, they do not necessarily have to be presented separately in the numerical part of the statements. Consequently, in a number of cases we had to omit items about which the Hungarian accounts contain data, but in the IFRS-based financial statements we either did not find information, or only very rarely.

In the Hungarian balance sheet, at the level of detail for financial fixed assets, receivables and various payables, items outstanding with related entities, entities with a participating interest and entities with other shareholdings must be presented on separate lines, so that the business content (accounts payable/receivable, loan receivables/payables) of those items are overridden by this form of presentation. Therefore, the data of Hungarian balance sheet receivables/payables (from the supply of goods and services) can be significantly distorted, where e.g. intra-group sales typically occur.

Since our study specifically focused on a comparison of the values of the indicators obtained from Hungarian accounts data with the values obtained from the IFRS

financial statement for the same period, we did not include trend-like indicators in our analysis.

The possibilities of our survey were also influenced by the fact that for many indicators used in banks' risk analysis and rating processes, the input data are not publicly available at all, only included in the detailed corporate data requested before the lending relationship is established.

Table 3 provides a summary of the indicators that were examined in the light of the above, using the following data:

- From the P/L account directly: revenue, depreciation, operating profit/loss, interest expense; indirectly (calculated): EBIT, EBITDA
- From the balance sheet: fixed assets, current assets, total assets, equity, total liabilities, current liabilities

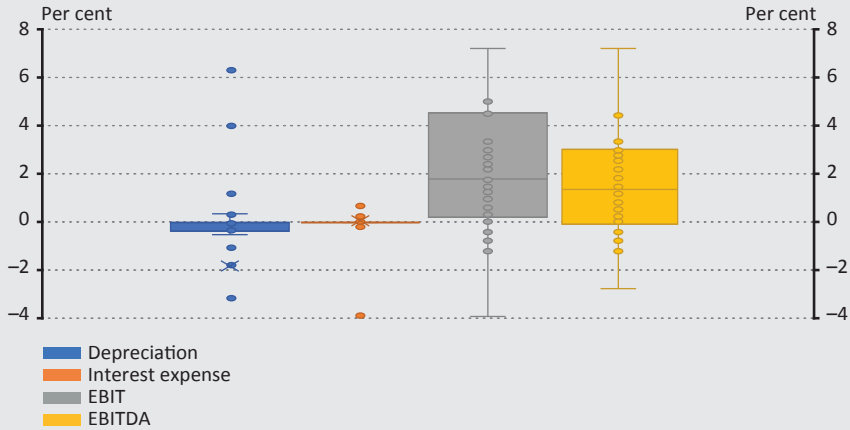
Table 3	
Indicators examined and their calculation	
Profit on sales	Profit for the year / Revenue
EBIT rate	EBIT / Revenue
EBITDA rate	EBITDA / Revenue
Current ratio	Current assets / Short term liabilities (current liabilities)
Capitalisation rate	Equity / Balance sheet total
Liabilities to EBITDA	Liabilities / EBITDA

Before reviewing the changes in the above indicators as a result of the transition, let us also look at Figure 8, in which the depreciation and interest expense data and the changes in the EBIT and EBITDA values, two key P/L categories for bank ratings, are presented.

In the case of interest expense, the variation is insignificant; the explanation for the two outliers of depreciation is that while according to the Hungarian regulations, in the case of operating leases, the assets are not included in the books of the lessee and no depreciation (and interest expense) is accounted for, in many cases these transactions were classified as financial leases in accordance with IAS 17. Since then, the leases standard has been renewed and IFRS 16 has been in force as of 2019, which is expected to reinforce this difference.⁴ Significant changes in the EBIT and EBITDA P/L categories are justified by this and the changes in the previously examined components.

⁴ IFRS 16 Leases entered into force on 1 January 2019, with earlier application permitted in certain circumstances (IFRS 2021).

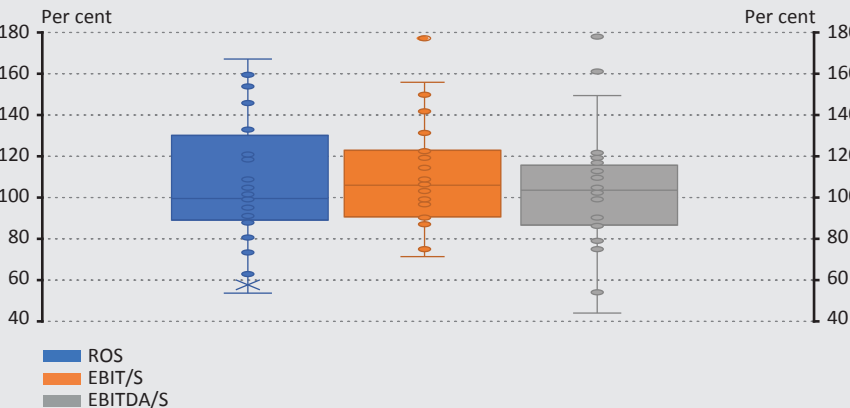
Figure 8
Depreciation, interest expense, changes in EBIT and EBITDA excluding outliers



Source: Calculation and editing based on the accounts of the sampled companies

Of the 42 companies selected for analysis, only 40 could be analysed in terms of revenue-based indicators, given the absence of revenue in two cases. Based on an overview of the figures and changes of return on sales (ROS), EBIT/S and EBITDA/S, we found that the higher value of the indicators was mainly due to the lower revenue in IFRS-based financial statements (*Figure 9*). The common reasons for this were discussed in detail in the previous chapter.

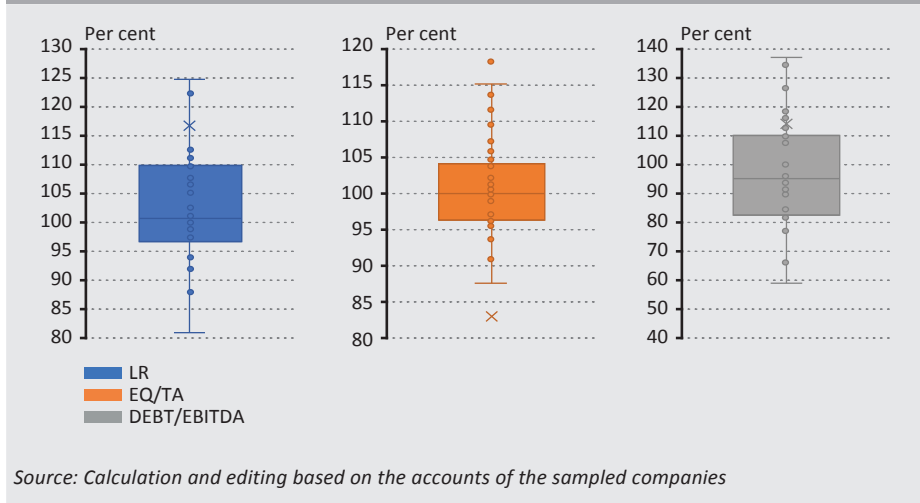
Figure 9
Change in the profit on sales, the EBIT rate and the EBITDA rate



Source: Calculation and editing based on the accounts of the sampled companies

Minimal variations were also obtained in terms of liquidity ratio (LR) and capitalisation ratios. The effect of changes in these indicators is illustrated in *Figure 10*. Instead of the average, which can be strongly distorted by the outliers, the median is also worth considering. For example, while the average variation of equity (E) is –14.6 per cent, in the case of the median it is 0 per cent; similarly, in the case of the balance sheet total (BST), these values are: –1 per cent (average) and 0 per cent (median).

Figure 10
Liquidity ratio (LR), capitalisation ratio (E/BST) and liabilities to EBITDA (DEBT/EBITDA)



What could be the key to a uniform interpretation of the financial statements and to providing for more data analysis and comparability? According to XBRL International, some type of financial reporting system based on XBRL (eXtensible Business Reporting Language) is already in use in more than 50 countries (*XBRL 2021*). For supervisors, tax authorities, investors and countless stakeholders alike, this provides simple and inexpensive opportunities for data collection.⁵ In the United States, the SEC (Securities and Exchange Commission) has required listed companies to disclose their financial data on an XBRL basis since 2009 (*Singerová 2015; Liu et al. 2017*).

The new electronic reporting format, the European Single Electronic Format (ESEF), which has been developed by the European Securities and Markets Authority (ESMA) and is also based on XBRL, will be mandatory for companies whose

⁵ One example is Magyar Nemzeti Bank itself in its supervisory capacity for credit institutions, requiring XBRL data reporting to be submitted to the European Banking Authority (EBA), with implementation originally scheduled for April 2020, postponed until October 2020 due to Covid-19.

securities are listed on any stock exchange in the European Union. The primary elements of the financial statements (balance sheet, comprehensive P/L account, statement of changes in equity, cash flow statement) should have been disclosed for the first time in 2020, but due to the pandemic, countries were offered the option for implementation in 2021 (Hungary also opted for postponement pursuant to *Government Decree No 1078/2021. (II. 27.)*). However, the items in the notes to the accounts for the financial years 2022 and onwards must also be labelled accordingly.

5. Summary and outlook

Based on our research, we concluded that the transition to IFRS did not affect the main figures in the financial statements of most of the sampled companies. (In many cases, the median of the variation is around zero, and the interquartile range is also very narrow.) However, with some companies there have been specific and marked variations (in many cases due to one or two types of events), so after the primary analysis, it is worth reviewing whether the company has assets and transactions that have been treated differently in Hungarian accounting and in accordance with international standards (typical examples have been presented in the previous sections).

The question remains whether the new format will help improve the position of lending banks. Listed companies will disclose their consolidated financial statements in this form; however, banks and financial institutions will have to provide ratings on the basis of individual accounts if they do not receive parent company guarantee cover for the loans of the subsidiaries. Thus, some of the statements that can be interpreted by machine reading and can be analysed later even by artificial intelligence can be used to improve rating systems and increase comparability (also internationally), but we cannot expect individual analysis, evaluation and database building to be “cut out” at the level of individual statements for a long time to come.

In another approach, however, there is a strong potential for disclosure in new electronic formats: after a reasonable period of time, it will provide all stakeholders with a comprehensive and searchable database, which will also provide an opportunity for modelling, exploring deeper connections and further innovation.

References

- Banai, Á. – Körmendi, Gy. – Lang, P. – Vágó, N. (2016): *Modelling the credit risk of the Hungarian SME sector*. MNB Occasional Papers 123, Magyar Nemzeti Bank. <https://www.mnb.hu/letoltes/mnb-op-123-final.pdf>
- Deloitte (2018): *Összefoglaló jelentés a 2018. évi IFRS felmérés eredményeiről (Summary Report on the results of the 2018 IFRS survey)*. <https://docplayer.hu/109857710-Osszefoglalo-jelentes-a-evi-ifrs-felmeres-eredmenyeirol-julius.html>. Downloaded: 10 May 2021.
- Horváth, G. (2021): *Corporate Credit Risk Modelling in the Supervisory Stress Test of the Magyar Nemzeti Bank*. Financial and Economic Review, 20(1): 43–73. <https://doi.org/10.33893/FER.20.1.4373>
- IFRS (2018): *Who uses IFRS Standards?* <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis-of-the-166-profiles>. Downloaded: 18 May 2021
- IFRS (2021): *IFRS 16 Leases*. <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/>. Downloaded: 16 May 2021.
- Lakatos, L.P. – Kovács, D.M. – Madarasiné Szirmai, A. – Mohl, G. – Rózsa, I. (2018): *Nemzetközi pénzügyi beszámolási standardok elmélete és gyakorlata (International Financial Reporting Standards: Theory and Practice)*. 2nd (revised) edition, Hungarian Chamber of Auditors, Budapest.
- Liu, C. – Luo, X. (Robert) – Wang, F.L. (2017): *An empirical investigation on the impact of XBRL adoption on information asymmetry: Evidence from Europe*. Decision Support Systems, 93(January): 42–50. <https://doi.org/10.1016/j.dss.2016.09.004>
- Madarasiné Szirmai, A. – Szöllősiné Szép, A. (2018): *A nemzetközi pénzügyi beszámolási standardok (IFRS) alapján teljesített statisztikai adatszolgáltatás módszertanának háttere és tapasztalatai (Background and experience of the statistical reporting methodology performed under International Financial Reporting Standards (IFRS))*. Statisztikai Szemle (Hungarian Statistical Review), 96(5): pp. 489–521. <https://doi.org/10.20311/stat2018.05.hu0489>
- Singerová, J. (2015): *XBRL: Different Approach of Utilization*. Procedia Economics and Finance, 25. 134–140. [https://doi.org/10.1016/S2212-5671\(15\)00721-2](https://doi.org/10.1016/S2212-5671(15)00721-2)
- Walter, Gy. (ed.) (2019): *Vállalatfinanszírozás a gyakorlatban (Corporate finance in practice)*. Second edition, Alinea Kiadó.
- XBRL (2015): *An Introduction to XBRL*. <https://www.xbrl.org/the-standard/what/an-introduction-to-xbrl/>. Downloaded: 5 May 2021.