EQUIVALENCE OF IFRS ACROSS LANGUAGES: TRANSLATION ISSUES FROM ENGLISH TO GERMAN

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ABSTRACT

Convergence has been supported by the notion that a single set of high-quality global accounting standards is an important means of enhancing comparability of financial statements. The purpose of this study is to emphasize translation of International Financial Reporting Standards (IFRS) as an impediment for a consistent application and interpretation across countries. Specifically, we critically analyse literature that combines the fields of linguistics and accounting and examine the quality of IFRS translation. Using Germany as a case study, we provide evidence that the translation of selected IFRS from English to German is not equivalent to the original version.

1. INTRODUCTION

Global accounting standards convergence is accelerating since the European Union's 2002 regulation mandating International Financial Reporting Standards (IFRS[1]) for all public companies listed in the EU and the execution of the Norwalk Agreement between Financial Accounting Standards Board and International Accounting Standards Board (IASB[2]). Convergence has been supported by the notion that a single set of high-quality global accounting standards is an important means of enhancing comparability of financial statements. Indeed, several studies have provided some evidence that convergence has contributed to greater comparability in financial reporting (see Ali, 2005 for a review).

In contrast, research suggests that national culture could undermine a consistent application of IFRS across countries and thus convergence of standards may not automatically lead to comparability in financial reporting (e.g. Gray, 1988; Doupnik and Richter, 2004; Doupnik and Riccio, 2006; Schultz and Lopez, 2001; Perera, 1994; Tsakumis, 2007; Perera, 1989). This research established that cultural differences cause accountants in various countries to apply and interpret accounting standards differently, especially where professional judgment is required. These researchers argued that cultural values affect accounting values which in turn direct the interpretation and application of financial reporting standards. However, culture does not only consist of values but is also determined by symbols such as language. IFRS are written symbols and the symbolic meaning of terms and phrases as well as the linguistic characteristics of clauses and paragraphs determine their interpretation and application. In other words, if IFRS are linguistically unclear, accountants across countries might invoke their accounting values in an inconsistent way.

In the context of the EU, it is necessary to promulgate linguistically clear and understandable standards in different languages. The original language of IFRS is English, but the endorsement process of the EU makes it necessary to translate IFRS into all official European languages. This is a legal requirement and IFRS are not legally binding without their translation. As such, translation of IFRS into various European languages poses a threat to comparability if not well-organized and rigorous undertaken. The objective of this paper is to highlight translation as an impediment for a consistent application and interpretation of IFRS. Specifically, we examine the quality of IFRS translation and evaluate whether the translation of selected IFRS from English to German is equivalent.

The paper is structured as follows. The second section discusses linguistic studies in accounting research. The third section explains the research method. The fourth section examines the quality of the translation into German. The fifth section concludes the paper.

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[1] For ease of expression, the abbreviation 'IFRS' includes both International Financial Reporting Standards and International Accounting Standards.
[2] The International Accounting Standards Committee was restructured as the International Accounting Standards Board in 2001. The abbreviation 'IASB' includes both institutions.

2. LANGUAGE AND TRANSLATION IN ACCOUNTING RESEARCH

Research in accounting that applies theory and/or methods from linguistics to analyse the use of language has a relatively short history. In the 1970's, early attempts in accounting research applied linguistic techniques common in other disciplines to measure the meaning of accounting concepts as perceived by different stakeholder groups. The underlying argument for such research is that meaning is central to any communication and, given that accounting involves communication, meaning is central for accounting.

Haried (1972; 1973) was the first to analyse the meaning of representative accounting terms utilized within financial reports. He argued that a significant difference in meaning implies a significant difference between the intended and received message, which might incur communication errors between groups that depend on a shared concept. Based on the pioneering linguistic work of Osgood et al. (1957)[3], Haried (1972) developed scales (semantic differentials) and seven dimensions that can be used for measuring meaning differences in the accounting field. Applying this framework, Haried (1973) found no significant meaning differences between financial statement preparers and users. However, Houghton (1988) re-analysed Haried's (1973) data and provides evidence that the results on which Haried (1973) based his conclusions were inaccurate. Adjusting Haried's (1972; 1973) Houghton (1988) revealed a three-dimensional structure that is consistent with the meaning structure proposed by Osgood et al (1957).

Several researchers followed Haried (1972; 1973) to adopt the framework from Osgood et al. (1957). Oliver (1974) and Houghton (1987b) focused not on financial reports but on accounting concepts utilized in formulating financial communication. Flamholtz and Cook (1978) used the semantic differentials structure to study the role of connotative meaning in the process of change in accounting and examined the meanings of more traditional versus newer concepts such as human resource accounting. Houghton and Hronsky (1993) found that meanings of various accounting concepts held by accounting students are not identical to those held by practicing accountants. They concluded that experience played a significant role in the construction of meaning. Similarly, Houghton (1987a) showed that the meanings of accounting concepts held by students change during their progression through an accounting education program. Houghton and Messier (1991) measured variations of auditor reports and found that changes in wording affected the reports' meaning. Bagranoff, Houghton and Hronsky (1994) measured connotative meaning across different cultures and

[3] Semantic space is multi-dimensional Euclidean geometrical space, with each dimension representing an independent dimension of meaning. This multi-dimensional semantic structure is also referred to as cognitive structure. Osgood et al (1957) found the existence of three dimensions for the general domain of meaning, which are the evaluative dimension, potency dimension, and activity dimension (E-P-A structure). The E-P-A structure has been validated in numerous studies with the psychological research finding these three factors regardless of the domain of interest (Heise, 1969). This framework has been widely used in numerous disciplines, including psychology (Goldsmith et al., 2000), sociology (Tzeng and Henderson, 1999), and education (Tracey et al., 1999). With a small number of exceptions, the previous accounting studies have supported the three dimensional structure.

suggested that cross-cultural differences may affect the meaning associated with accounting standards. However, their study is restricted to Anglo-American countries (i.e. USA and Australia) and do not provide an analysis across linguistic boundaries. As an alternative to adjectives, Monroe and Woodliff (1993), Holt and Moizer (1990), Libby (1979), and Bailey et al. (1983) used adjectival phrases to measure the specific messages communicated through audit reports.

More recently, Wines (2006) investigated the connotative meaning of the concept 'auditor independence' within three case contexts and found alternative dimensions of the independence concept and that meaning of independence changes in situations where potential threats to auditor independence were introduced. However, Wines (2006) study is limited to a single category of participants (university students). Hronsky and Houghton (2001) examined the change in Australian accounting standards of the definition of an 'extraordinary item' and provide evidence that auditors do ascribe different meanings to the old and new definitions of an extraordinary item, and that those differences are systematically associated with different extraordinary item classification decisions. As such, Hronsky and Houghton (2001) extent previous studies by addressing the impact of connotative meaning on accounting decision making. Hronsky and Houghton (2001) established that there is a measurable and empirically verifiable link between accounting policy decisions of subjects and their meaning of key terms used in their judgment process.

The main conclusion drawn from the meaning measurement literature is that Osgood et al. (1957) developed with the semantic differential structure a research methodology which is capable of quantitatively measuring meaning. The reliability, validity and effectiveness of this methodology have been verified in the literature. However, Osgood et al (1957) noted that the measured meaning is connotative meaning, and is distinct from denotative meaning. Connotative meaning of a word or concept involves the communication of a subjective attitude or emotion, and denotative meaning involves the communication of an objective description. As a consequence of the sharing of denotative meaning, subjects are able to agree upon what the message is, while shared connotative meaning represents a similar interpretation, or reaction to, the message. As such, it is connotative meaning that gives rise to an individual's reaction to a concept. By applying the semantic differential framework only, previous studies ignored possible differences in denotative meaning between individuals. The assumption of the early accounting literature was that denotative meaning of a concept is shared simply by belonging to the accounting profession; however it may differ between different stakeholder groups. Even the more recent literature focused on connotative meaning alone. For example, Hronsky and Houghton (2001) control for possible variations in denotative meanings by including only individuals in their research design that all have expertise in accounting practice and received training about the concept under investigation.

However, Haried (1973) and Adelberg and Farrelly (1989) measured both connotative and denotative meaning. Haried (1973) applied the antecedent-consequent technique to measure denotative meaning and provides evidence that denotative meaning differs between preparers and users of financial statements. Adelberg and Farrelly (1989) applied two psycholinguistic techniques, classification analysis[4] and association analysis, to measure transference of denotative and connotative meaning between producers and users of accounting information. In contrast to Haried (1973), Adelberg and Farrelly (1989) neither found intergroup differences nor intragroup differences in regards to denotative meaning. Consistent with authors who did not test for differences in denotative meaning, they argue that these findings are reasonable since denotative meanings are widely known and relatively unchanging over time. In regards to connotative meaning, Adelberg and Farrelly (1989) found the selected financial statement terms are more meaningful to preparers than they are to users.

The assumption of shared denotative meanings might be reasonable for the early accounting literature because there focus was on either a single country or culture, or a single group of subjects. However, this assumption is too simplistic because accountants from different countries and with a diverse cultural background are applying a single set of accounting standards (IFRS). As such, studies have to examine meaning of accounting terms in a range of countries. Further, research has to include a variety of stakeholders involved in the communication process. If accounting is to be used for effective communication, there should be a consensus on the part of standard setters, financial report preparers, auditors, financial analysts, and other relevant groups about the meaning of accounting terms and phrases. Previous studies are too simplistic if their data is based on only one of these groups.

The semantic differential technique, antecedent-consequent technique, classification analysis, and association analysis are useful to measure the denotative and connotative meaning of accounting vocabulary and have been extensively used to measure individual accounting terms and concepts. A widely used technique to analyse narration (that is written material in complete sentences) is the application of a readability formula such as FLESCH or FOG[5], which are largely based on word and sentence length and fail to take into account the interaction between the context and the reader. The underlying assumption of authors that apply readability formulae is that readability reflects understandability (Jones, 1988).

Stevens et al. (1993) criticized readability formulae because of the simplistic assumption that a shorter word or sentence is easier to read than a longer one. Indeed, reading comprehension involves multiple elements at different cognitive levels. Theories of reading have consistently emphasized this multiplicity and complexity inherent in reading comprehension (e.g. Graesser et al., 1994; Just and Carpenter, 1980; Kintsch and Dijk, 1978; Kintsch, 1988; Kintsch, 1998). Higher-level cognitive processes inherent in reading comprehension include parsing, the assignment of meaning, processing the mental representations of the meaning of words, and saving them in memory (Anderson, 2000: p. 389). Readability formulae do not address this variety in higher-level cognitive processes and are limited to the extent of what they measure. As such, they do not account for experience, knowledge, language ability, or motivation of the reader. Furthermore, Stevens et al. (1992) regard readability formulae as

[4] Classification analysis was developed by Miller (1969) and has been widely used to measure the denotative meaning of words.). Miller (1969) applied Johnsons's (1967) hierarchical clustering scheme.

[5] Different readability formulae arise because of different measures of word length and different weightings applied to the component parts.

inappropriate for evaluating adult-based and technical accounting narratives because they were derived from a sample of school students.

Sydserff and Weetman (1999) suggest the texture index approach developed by Roseberry (1995) to address the limitations referred to above. The texture index of Roseberry (1995) includes six criteria for evaluating narratives which are referred to as 'indexicals'. Specifically, these criteria are topicality, conjunction, connectivity, conjunctive reach, topic shift and specificity, which offer information about a narrative that is not captured in a readability score. Despite a sound theoretical basis, Sydserff and Weetman's (1999) suggested methodology has been ignored entirely in the literature.

The application of readability formulae as a single measurement of understandability is too simplistic because of the limitations outlined before. However, readability formulae have been widely used in accounting literature (for example, see Smith and Smith, 1971; Jones, 1988; Still, 1972; Schroeder and Gibson, 1990; Lewis et al., 1986; Pound, 1981; Courtis, 1986; Courtis, 1995; Parker, 1982; Courtis and Hassan, 2002; Flory et al., 1992; Smith and Taffler, 1992b; Smith and Taffler, 1992a; Subramanian et al., 1993; Morton, 1974; Clatworthy and Jones, 2001)[6]. Most of these studies applied the reading-ease formula developed by Flesch[7]. However, these studies applied this formula only in English. A comparison between languages, such as English and German narratives, might not be possible because of different language characteristics. Compared to German, English has a relative high frequency of words with one syllable. As such, the Flesch formula would significantly overestimate the reading difficulty of German narratives if compared with English versions.

Readability and understandability have been treated as synonymous by the majority of authors (for example, Adelberg, 1983; Adelberg and Razek, 1984). However, Lewis et al. (1986) recognised that readability and understandability are different concepts. Whereas readability formulae take into account only textual factors, a common test to measure understandability is the cloze procedure. The cloze procedure measures an individual's ability in understanding a specified section of content as a result of interacting with the material (Stevens et al., 1992). Developed by Taylor (1953), this methodology mutilates content by the deletion of a random number of words, usually every fifth word[8]. Respondents are required to predict, for each deletion, the exact word based on the surrounding context. Responses to the cloze test are scored by counting the number of correct reproductions which is then expressed as a percentage of the total number of deletions. The underlying assumption is that there will be a large number of matches if the language of both the reader and writer correspond (Adelberg, 1979). As such, the ability to predict the precise word used by the writer is indicative of the reader's understanding of the writer's total meaning.

[6] Jones and Shoemaker (1994) provide a comprehensive literature summary of readability studies.

[7] Reading ease = 206,835 – 0,846wl – 1,015sl
WI is the number of syllables.
SI is average number of words for each sentence.
The reading ease score is between 0 (not readable at all) and 100 (maximum readability)

[8] Taylor (1953) suggests that the narrative tested with the cloze procedure should not be less than 250 in length. This would allow at least 50 deletions.

The cloze procedure has been widely used in the accounting literature to measure text comprehension of readers in mainly three areas: Accounting textbooks (e.g. Adelberg and Razek, 1984; Raabe et al., 1984; Drews-Bryan and Schleifer, 1993), authoritative pronouncements in accounting (e.g. Adelberg, 1982; Shaffer et al., 1993; Stevens et al., 1983; Stevens et al., 1985; Drews-Bryan and Schleifer, 1993), and corporate annual reports (e.g.Adelberg, 1979; Adelberg, 1980; Smith and Taffler, 1992b; Smith and Taffler, 1992a). For example, Adelberg (1979) used the cloze test to measure the understandability of various parts of financial reports. Evidence indicates that financial report users do not understand well accounting policy footnotes and managements' analyses of operations. Stevens et al. (1983; 1985) applied the cloze procedure to measure the understandability of *Financial Accounting Standards Board Statement 33* and identified two potential user groups who found it incomprehensible. Adelberg and Razek (1984) tested the understandability of accounting textbooks and provides evidence that the level of understandability varies significantly among accounting students. Shaffer et al. (1993) applied the cloze procedure to analyse a statement issued by the Governmental Accounting Standards Board and provide evidence that some parts are unreadable by university students. Patel and Day (1996) measured the understandability of *Statement of Accounting Concepts No. 4: Definition and Recognition of the Elements of Financial Statements* issued by the Australian Accounting Research Foundation and found that a large number of accounting students did not understand this standard. Nilsson (1997) investigated the understandability of messages in annual reports related to small investors, auditors, and financial managers and provides evidence that some parts were not understood by small investors. Only few researchers combined both readability formulae and the cloze procedure. For example, Smith and Taffler (1992b; 1992a) provide evidence that even the users most sophisticated have difficulty in fully comprehending financial narratives. Stead (1977) found that the opinions of the Accounting Principles Board appear difficult to read based on readability formulae, and appear more meaningful to accounting majors than to non-accounting majors.

There has been comparatively little critical appraisal by accounting researchers of the cloze procedure. Jones (1997) raises concerns in regards to the general validity and reliability of the cloze procedure. He argues that the suitability of the cloze procedure as method to measure comprehension cannot be fully assessed because there is no agreed reading comprehension theory existing. Lewis (1986) regards the cloze procedure as a measure of inference and not of comprehension. Inference, however, is only one part of the reading process (Smith, 1985)[9]. Further, there is a problem with the interpretation of cloze scores. Researchers that correlated cloze scores with scores obtained on multiple-choice comprehension tests tried to establish a benchmark by which understandability can be rated (for example, Bormuth, 1968; Rankin and Culhane, 1969). However, these reference scores vary significantly from 31 per cent to 57 per cent at the instructional level and from 36 per cent to 61 per cent at the independent level. Despite this range of possible reference points, accounting researchers in general follow the 57 per cent benchmark developed by Bormuth (1968). However, the accounting literature does not provide any argument why the 57 per cent benchmark is more reasonable than, for example, the 61 per cent benchmark developed by Rankin and Culhane (1969).

[9] There is the schema model of reading, where reading is seen as a problem-solving activity, and the traditional constructivist theory of reading, where reading is seen as essentially a matter of decoding syntactical units. The interactive model of reading hybridizes both theories (Spiro and Myers, 1984). The cloze procedure corresponds to the schema theory of reading.

Merely adopting the 57 per cent benchmark is too simplistic and ignores the importance of the reference point. Jones (1997) shows that Adelberg's (1982) results change significantly if the reference point is modified. Judged by the 57 per cent reference point, Adelberg's (1982) results demonstrate that authoritative pronouncements are understood. However, if the 61 per cent reference point would be applied, the authoritative pronouncements are not longer understandable. Importantly, the reference scores have been developed in a general context and not in an accounting context. As such, they may not be suitable for accounting texts as specific skills or prior knowledge is necessary to understand highly technical accounting texts.

The results gained by using the cloze procedure are limited because the reference point allows only for a binary appreciation (understandable vs. not understandable) of the difficulty of a text. However, the degree of understandability would also be of interest as well as an indication about which parts are especially difficult to understand. Finally, Jones (1997) criticises that many of the previous studies applied the cloze procedure using inappropriate readership populations or excluding key stakeholder groups. For example, no researchers who examined the understandability of annual financial reports included shareholders in their sample. Adelberg (1979; 1980) tested accounting professionals and audit seniors, while Smith and Taffler (1992a) tested accounting undergraduates and practitioners. As a consequence, the conclusions of these authors may be misleading as the average shareholder and the average audit senior may differ significantly in terms of accounting education and experience to understand those texts.

Most of the studies combining linguistics with accounting examine countries from the Anglo-American cluster of accounting and analyse perception on a single language level (i.e. English). However, the worldwide acceptance of IFRS requires their application across cultures and language barriers. As such, translation has become a necessary feature of international accounting. A rigorous and correct translation of IFRS is important because individuals are more confident in applying their native language and may be able to make finer and subtler distinctions and interpretations in their own language (Doupnik and Richter, 2003). Furthermore, the endorsement process in the EU requires that IFRS are translated into all official EU languages, which makes it necessary to evaluate the meaning of accounting terms across different languages. Archer and McLeay (1991) draw on the theories of semantics and pragmatics to examine the existence of a translinguistic professional register of accounting, in which accounting concepts would be similar enough to allow for equivalent translation. Based on an examination of translated audit reports, Archer and McLeay (1991) find many peculiarities which militate against any translinguistic register. Evans (2004) highlights the risk that the process of translation will change or lose meaning from the original text and examines the major problems of accounting communication when more than one language is involved. Examining the concepts of principles of orderly accounting, true and fair view, and prudence, Evans (2004) finds that the translation of these concepts from German into English (and vice versa) is problematic because the signifier[10] chosen to translate the term is already associated with a specific meaning in the target language.

[10] De Saussure (1915/1974) distinguishes between the word itself (the 'signifier') and what the word is used to mean (the 'signified'). Both are subject to change. A word may change its meaning (i.e. refer to a different concept) over time, and equally the concept may also change.

Translation of the true and fair view is examined, for example, by Nobes (1993), Aisbitt and Nobes (2001), and Alexander (1993) who find some non-equivalences. For example, Nobes (1993) finds that signifiers implemented in EU member state laws are not the same in all cases as those in the official versions of the Fourth Directive and that some translations of true and fair view do not appear to correspond to the original UK concept. Similarly, Evans and Nobes (1996) find different wording surrounding the prudence principle in the English language version of the Fourth Directive as compared to all other language versions. For example, the German translation 'Vorsicht' carries stronger connotations than 'prudence' in the UK (Evans, 2004). Niehus (2005) compared the English IFRS version with the German IFRS version and found significant errors and mistranslations. Tsakumis et al. (2009) point out that the term 'remote' is difficult to translate. They argue that the term is used in IAS37 and IAS31 with a similar purpose and context, and as such is likely to mean the same in both cases that is 'very unlikely'. This term has been translated in German inconsistently, because it is translated as 'extremely remote' in IAS37 and as 'improbable' in IAS31. However, all of these studies are descriptive in nature and focus on the literal translation of accounting terms, not drawing on linguistic and translational theories.

IFRS include both technical accounting terms and uncertainty expressions which have to be translated and interpreted. Chesley (1986) found that individuals do not associate similar probability levels with various uncertainty expressions in English. An implication of this finding is that accounting professionals do not agree on the meaning of uncertainty expressions. As such, the extent of disagreement is likely to exacerbate if the number of languages including probability expressions is increased. Davidson and Chrisman (1993) found that uncertainty expressions incorporated in IFRS are not interpreted similarly by Anglophone and Francophone users. In a related study, Davidson and Chrisman (1994) confirmed their findings for uncertainty expressions utilized in Canadian accounting and auditing standards. They suggested that differences in interpretation can indicate a difference in the concept conveyed by the expression or a difference in the precision of the expression. Amer et al. (1994) examined from auditors their numerical interpretations of probability phrases used in auditing practice and found substantial between-auditor variance. Doupnik and Richter (2003) provide evidence that differences exist between English-speaking and German-speaking accountants for a large number of uncertainty expressions. They argue that these differences in interpretation may be the result of a language culture effect or due to poor translation and a lack of an equivalent term in the target language, respectively. Doupnik and Richter (2004) confirm previous findings for the interpretation of probability expressions with reference to the context of specific IFRS, but suggest that translation problems that exist with uncertainty expressions partially resolve themselves when they are placed in the context of a standard. However, Simon (2002) shows in an UK context that several probability expressions have low communication efficiency. Policy implications for the IASB might involve a reassessment of the use of probability expressions with low communication efficiency and the use of well-understood probability expressions in both the original English version and the German translation.

3. RESEARCH METHODS

Case study method: The purpose of this study is to provide an understanding of the effect translation of IFRS into local languages has on the convergence process. There are currently twenty-three official languages in the European Union (European Commission, 2009). However, this paper evaluates the quality of translation from English into German only. The German language version has been selected for this study for two main reasons. Firstly, the countries where German is the official language are often included in the Continental European model as distinct from Anglo-American model of accounting (Nobes, 1998; Nobes and Parker, 2008: 61; Doupnik and Perera, 2009: 44). In contrast, the IASB is dominated by members of accountancy bodies with Anglo-American accounting background (Street, 2002; Kirsch, 2006: 375). The initial board members were from Australia, Canada, France, Germany, Japan, South Africa, Switzerland (with one member each), United Kingdom (four members), and the United States (three members) (IASB, 2001). From these countries, only France, Germany, Switzerland and Japan represent the Continental European accounting model. Consequently, ten of the fourteen members of the board had an Anglo-American accounting background and they would have influenced the conceptual basis of IFRS. Issues in relation to the application of IFRS can be expected in countries which have a different accounting environment to those where IFRS were developed (Hellmann et al., 2008). Secondly, German ranks second behind English as language spoken by the highest percentage of EU population and first as mother tongue. Furthermore, the German language version was the first translation of IFRS in 1997 and updated several times.

Theoretical framework: Evaluating the quality of a translation presupposes a theory of translation. However, there is no dominant view in the translation literature about how to assess translation. Thus different views of translation lead to different concepts of translational quality, and hence different ways of assessing it. One way to evaluate translation is to focus on the relationship between translator and the original text. This neo-hermeneutical approach emphasizes the belief that the quality of a translation depends largely on the translator's subjective interpretation, which is based on linguistic and cultural intuitive knowledge and experience (House 1997, page 3). However, such a view disregards the original text, the relation between original and translation, and the expectations of the target text readers, and thus leads to a subjective and intuitive treatment of assessing the quality of translation. Another approach is response-orientated, which focuses on the manner in which receptors of the translation text respond to the text. However, such an approach ignores the original text and fails to evaluate the relationship between original and translation. As such, response-orientated approach cannot shed light on whether a translation is in fact a translation or simply a version or adaptation.

Instead of selecting one of these views, this paper focuses on the underlying conceptual basis which is necessary for a consistent application of IFRS. The conceptual basis of translation is the notion of equivalence, which can be understood on several dimensions (Catford, 1965). First, equivalence can be obtained on different strata in language such as content or expression (Halliday, 2001). The widest stratal environment is that of context and within that there is a hierarchy of linguistic strata or levels of decreasing stratal scope – semantics, lexicogrammar and phonology (Matthiessen, 2001). Equivalence on these different strata may not carry the same value for users. In general, semantic equivalence is valued more highly than lexicogrammatical, and contextual equivalence most highly of all (Halliday, 2001). Second, translation equivalence may also be understood and valued with respect to rank.

Value tends to go up the higher the rank, with sentence equivalence is usually higher valued than clausal, clausal than phrasal, and so on (Halliday, 2001). Finally, equivalence may be understood and valued with respect to metafunction, with the ideational metafunction carrying the highest value overall (Halliday, 2001).

As such, value may be attached to equivalence at different ranks, different strata, and different metafunctions. In rank, it is usually at the higher lexicogrammatical units that equivalence is most highly value; lower units are then exempted (e.g. words can vary provided the clauses are kept constant). In strata, likewise, equivalence is typically most valued at the highest stratum within language itself, that of semantics (where again the lower strata may be allowed to vary); value may also attach explicitly to the level of context, especially when equivalence at lower strata is problematic. In metafunction, high value may be accorded to equivalence in the interpersonal or textual realms – but usually only when the ideational equivalence can be taken for granted (Halliday, 2001).

House (1997; 1977; 2001) developed a model of translation evaluation which is based on the concept of equivalence. This model provides for the analysis of an original and its translation on three different levels: (1) Language/Text, (2) Register (Field, Mode, Tenor), and (3) Genre.

Language/Text covers aspects of grammar and linguistically equivalence. *Register* includes the dimensions of *Field*, *Mode*, and *Tenor*. The dimension of *Field* captures social activity and the topic, with differentiations of degrees of generality, specificity or granularity in lexical items according to rubrics of specialised, general and popular. As such, this dimension captures the content of the text or its subject matter. *Tenor* refers to the nature of the participants, the addresser and the addressees, and the relationship between them in terms of social power and social distance. Included are the text producer's temporal, geographical and social provenance as well as his intellectual, emotional or affective stance (that is the personal viewpoint) vis-à-vis the content he is portraying and the communicative task he is engaged in. Further, *Tenor* captures social attitude, i.e. different styles (formal, consultative and informal). *Mode* refers to both the channel and the degree to which potential or real participation is allowed for between writer and reader. The level of *Genre* enables one to refer any single textual exemplar to the class of texts with which it shares a common purpose. While *Register* captures the connection between texts and their micro-context, *Genre* connects texts with the macro-context of the linguistic and cultural community in which texts are embedded. The focus of this paper is on *Language/Text*, while the remaining two dimensions are subject of future papers (House, 1997; 1977; 2001).

4. TRANSLATION ASSESSMENT

The language of a country is a major element of the culture in that country. It is a legal requirement that EU regulations have to be translated into all twenty-three official languages. Similarly, IFRS also have to be translated because they need to be endorsed by the EU. An accurate translation of technical terms and accounting concepts included in IFRS into German is crucial. Especially concepts requiring the extensive use of professional judgment need to be translated accurately. This can be problematic if a language currently lacks words to discuss a particular technical term or if the literal translation incurs already a different meaning. In this cases, a term can be borrowed from other languages or can be developed from own resources. As such, any technical subject can be discussed in any language if that language adapts (Parker, 2001).

Literal translation of some accounting concepts and terms is difficult because there can be associations with terms that have been already applied in the German context and defined differently by the HGB. Previous translations of accounting terms provide evidence that even some fundamental terms such as 'asset' cannot be translated literally. For example, the literal translation of 'asset' would be '*Vermögensgegenstand'* in German. However, the IASB highlights in its 'Framework' characteristics of assets which are future economic benefits controlled by the entity as a result of past events. The German understanding of a '*Vermögensgegenstand'* is different because the focus is not on the future economic benefit but on its potential to cover liabilities. Further, a necessary requirement for a '*Vermögensgegenstand'* is its independent usability. As such, the meaning of the Anglo-American 'asset' is broader than a 'Vermögensgegenstand' and includes also goodwill and deferred items. As such, 'Vermögensgegenstand' would be a wrong translation. The new German term 'Vermögenswert' was created which was not previously used in the German Commercial Code.

The difficulty to find appropriate terms when translating and applying IFRS is reflected in the fact that the German translation of the standards includes some technical and linguistic mistakes. These mistakes change the scope and meaning of IFRS as shown in the following examples. First, IAS 31 paragraph 2 lists conditions which exempt a venturer from paragraph 30 (proportionate consolidation) and paragraph 38 (equity method). The English original of paragraph 2 sub-section (c) (iii) specifies as condition:

> the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market (*International Financial Reporting Standards (IFRS): Deutsch-englische Textausgabe der von der EU gebilligten Standards /English and German edition of the official standards approved by the EU*, 2007)

The phrase 'in the process of filing' indicates an activity and permits an exemption only if preliminaries already commenced. However, the German version uses the phrase '*an einer Wertpapierbörse eingereicht oder beabsichtigt dies'*. This translation is rather vague and preliminaries are not necessary. Using the German translation, the exemption is already permitted if an informal decision of the companies' board has been made to file its financial statements (Niehus, 2005).

Second, IAS 27, paragraph 6 which states in English that

> separate financial statements need not be appended to, or accompany, those statements (*International Financial Reporting Standards (IFRS): Deutsch-englische Textausgabe der von der EU gebilligten Standards /English and German edition of the official standards approved by the EU*, 2007)

The term 'need' is translated into the German phrase '*weder … noch*' which is a prohibition.

Third, IAS 24, paragraph 9 deals with related party transactions, according to which close members of the family of an individual may include under sub-section (c):

> dependants of the individual or the individual's domestic partner (*International Financial Reporting Standards (IFRS): Deutsch-englische Textausgabe der von der EU gebilligten Standards /English and German edition of the official standards approved by the EU*, 2007)

The German translation of the word 'or' in IAS 24, paragraph 9 is '*und*', which means 'and'. As such, the English original provides a wider scope of application than the German translation (Niehus, 2005).

Finally, cash flow statements are required by IAS7, reconciling to 'cash and cash equivalents'. The term 'cash equivalents' is defined in paragraphs 6 to 9, including:

> An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three month

The German translation of IAS 7 omits the word 'say'.

These translation errors change the scope and applicability of several IFRS. A comparison of several editions of the official German translation revealed that the errors are carried forward. As such, the impression could be gained that the translated version is produced merely as a convenience linguistic translation. In fact, reservations about linguistic translations are often evident in the more general overriders to IFRS, with the use of qualifiers such as 'In case of doubt the original IASB text should be consulted to answer an accounting question' (*International Financial Reporting Standards (IFRS): Deutsch-englische Textausgabe der von der EU gebilligten Standards /English and German edition of the official standards approved by the EU*, 2007). However, such as view is too simplistic and a thorough translation is necessary for a consistent application of IFRS across countries.

5. CONCLUDING REMARKS:

If the way IFRS are written is crucial for the interpretation of the standards, than a comprehensive linguistic analysis of IFRS is necessary. We found major translation errors in a number of IFRS. These errors change the scope and context of individual IFRS and may hinder a consistent application across countries. We focussed on the relationship between the original English text and its translation into German taking the quality of the original version for granted. However, another focus of linguistic analysis is necessary to comprehend our study. That is, future research has to evaluate the qualitative characteristics of the original English version. We analysed the German translation of the English original and disregarded all other European language versions. Further research is necessary to compare all language versions.

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