



# Hot Topics in Financial Translation

By Javier Gil

**Persistent** uncertainty regarding the global economy and heightened anxiety concerning the economic situation in the Eurozone has increased the demand for the right information at the right time. This means that more financial-related information needs to be translated in an accurate and timely manner. In order to be successful, financial translators need to be aware of the significant developments in the industries they serve.

What do the current business conditions mean for financial translators? In an attempt to answer this question, I will address some of the most relevant developments affecting 10 key sectors within the financial industry. For each sector, I will offer a brief assessment of the potential volume of work available, the complexity of the work involved, the amount of reliable information available for further research, and how fast each sector is growing.

I would like to make four important points before moving forward. First, while the content of this article is relatively specialized, I have tried

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to make it as straightforward as possible so that the information is applicable to a wide range of readers. Second, it is important to bear in mind that the list of sectors and the topics covered here is not meant to be exhaustive. Rather, I have based the information on my 14 years of experience as a financial translator and as an active reader of the financial press and media. Third, I am using the concept of financial translation in its broadest sense, therefore referring to the translation of documents of a financial, business, economic, and commercial nature. Finally, while most of the concepts explored here have a global reach, I have focused the content on developments affecting the U.S. and the European Union.

## 1. Accounting

Accounting documents such as financial statements represent a significant source of work for financial translators. For example, according to Deloitte, financial statements have doubled in length over the past 16 years, and are now 52% longer than in 2005.<sup>1</sup> One of the chief developments in the accounting industry, and a pivotal driver of growth in this sector, is the gradual adoption of International Financial Reporting Standards (IFRS) on a worldwide basis as the “accounting language” to be used in the preparation of public company financial statements.<sup>2</sup> Once implemented globally, IFRS would provide a core set of accounting standards that could serve as a framework for financial reporting. Around 120 nations and reporting jurisdictions now permit

or require IFRS for domestic listed companies. The U.S. Securities and Exchange Commission released a preliminary plan that would require U.S. public companies to report under international accounting rules no earlier than 2015.<sup>3</sup> Currently, Generally Accepted Accounting Principles (GAAP) remain the standard in the U.S., but there is a formal U.S. GAAP-IFRS convergence program in place that has resulted in ongoing changes to current standards. As such, financial translators will need to keep informed of the terms being adopted in the new accounting standards and include the “official terms” in their translations of financial statements.

In regards to the implications for financial translators, the potential volume of work generated by the use of IFRS is very high because more and more countries are adopting these standards as their “accounting language” in financial statements. The level of complexity of such standards (and therefore the language used) is also considered very high. Translators need to find the official taxonomy in their target languages to ensure that their translated documents reflect “official” usage. The challenge is that the amount of reliable information available for this sector is considered relatively low, since only the IFRS Foundation (through the International Accounting Standards Board) and the European Union (applicable for EU companies only) publish the official terminology and the official translations in their respective local languages. Adding to the difficulty is the fact that new standards are issued on a yearly basis, so terminology evolves rapidly.

## 2. Auditing

Within the European Union (EU), the European Commission has proposed far-reaching reforms to the auditing profession in the wake of the

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global financial crisis. The proposals have two main objectives:

- 1) To reduce concentration in the market for audits through new requirements around audit tendering and auditor appointment.
- 2) To address perceived threats to auditor independence resulting from audit firm rotation and limits on non-audit services.

In the U.S., similar reforms are being adopted through the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will be explored further in Section 7 on page 13.<sup>4</sup>

While these reforms may not result in significant linguistic changes for financial translators, the potential work-related implications they will generate for translators will be high. Auditing firms, which are important purchasers of translation services, will be transformed if some of these reforms are adopted. For example, new companies could be created due to restrictions on non-audit services. In addition, mandatory audit firm rotation could mean that translators’ long-term working relationships with certain clients will be interrupted.

The level of complexity of these proposed reforms is considered low. The volume of reliable information available is extensive, since these

reforms are being given wide coverage in the financial press. This is not considered a rapidly evolving area, as most of these reforms have to be debated carefully and will take years to implement.

## 3. Banking

The banking sector is an obvious source of work for financial translators, as it has been at the center of the current economic crisis. In response to deficiencies in banking regulation revealed by the crisis, one of the key international developments in the banking industry has been the introduction of Basel III, issued by the Bank for International Settlements. Basel III is a global regulatory framework designed to create more resilient banks and banking systems. It was agreed upon by members of the Basel Committee on Banking Supervision in 2010-11, and is scheduled to be introduced beginning in 2013 until 2019.<sup>5</sup> Proposed measures include implementing capital adequacy rules, conducting risk assessments through appropriate scenario analysis and stress testing, and working to improve price transparency and market liquidity. (For a complete overview, see [www.bis.org/publ/bcbs206.pdf](http://www.bis.org/publ/bcbs206.pdf).) It is hoped that this framework will effectively triple the size of the capital reserves that the world’s banks must hold against losses. As a result, thousands of pages are being written ➡

and translated. Basel II (which established credit risk mitigation techniques for collateralized transactions) was fully implemented in the EU, and Basel III is expected to follow accordingly. The U.S. Federal Reserve also announced in December 2011 that it would implement all of the Basel III rules.

The level of translation difficulty of these reforms is considered very high since they include complex calculations to determine the appropriate reserves for banks. Also, some of the terms being used are specific to this framework, and, as with IFRS, only the EU institutions and the relevant international bodies (in this case, the Bank for International Settlements) issue the official sources of information. As such, the volume of reliable information available is low. This is not considered a rapidly evolving sector due to the fact that most of these reforms still have to be debated carefully and will take years to implement in full.

#### 4. Business Services

The economic slowdown has affected, in one way or another, virtually all types of businesses regardless of size, location, or industry in which they operate. As a result, businesses worldwide have required professional advice to try and overcome the challenges involved, ranging from liquidity shortages and downsizing programs to regulatory advice. As such, companies providing consulting and advisory services are a significant source of work for financial translators. The scope of services these companies provide is as wide-ranging as the economy itself, so a detailed analysis is beyond the scope of this article. Hence, I have selected two areas that have been featured prevalently in the past few years in connec-

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tion with the current economic climate: 1) restructuring (reorganizing the structure of a company as a response to the crisis, bankruptcy, or mergers and acquisitions [M&A] activities), and 2) forensic services (fraud prevention, detection, and investigation).

The level of complexity of these business services can be considered medium-high, depending on the project itself. The potential volume of work can also be considered medium-high, since most of the largest companies currently require services of this nature. The availability of information may be low, since although these consultancy projects may have similar features, there will also be plenty of issues specific to the company receiving the services. It can also be considered a rapidly evolving area because business needs evolve and fluctuate very quickly. As an example, in the past five years we have seen how M&A activity froze as a result of the economic crisis, with companies worldwide focusing instead on sorting out their internal financial situation (hence, the increase in restructuring services). As more and more countries and businesses leave the worst of the economic crisis behind, M&A activity is picking up again and could become a significant source of work for translators once more.

#### 5. International Trade

Business transactions among companies trading internationally and their consumers who speak different languages have traditionally been an essential source of translation work. Globalization continues unabated, so the flow of material needing translation is not expected to end any time soon. Two of the most interesting developments in the wide-ranging concept of international trade are: 1) the development of the so-called second wave of emerging countries as potential commercial powerhouses, and 2) the uneven development of sustainability.

The level of complexity within the field of international trade can be considered medium on the basis that its main purpose is for the buyer and seller to agree quickly and successfully on the main terms and conditions of their transaction. The potential volume of work should be considered high. The reason is that international trade volume continues to grow, even in the current economic climate (14.5% in 2010 and 6.5% in 2011, according to the World Trade Organization).<sup>6</sup> The availability of information can be considered medium-high, since there are plenty of official statistics and other resource material in this field, although what is available may also depend on the specific company or industry. This is also considered a rapidly evolving sector, especially in areas such as retail and technology, since customers' likes and

dislikes change very quickly. For example, in the past five years we have seen the rise and fall of companies such as Yahoo! and RIM (manufacturer of Blackberry).

## 6. International Institutions

International institutions (such as the United Nations and institutions of the EU) tend to be large employers of in-house translators and significant buyers of translation. The current financial and political climate has put some of these institutions at the center of media focus, including the role the International Monetary Fund, European Central Bank, and the EU played in the Eurozone crisis. This has resulted in endless pages being translated, both for the media and for financial institutions, and this volume is expected to continue.

The level of complexity of translation work in this area can be considered medium-high, in particular in relation to the Eurozone crisis. The potential volume of work should also be considered high, although access to this work is not as open as in the private market, as it is filtered through various tendering processes depending on the institution. The availability of information can be considered low-medium due to the fact that it has to be obtained from the relevant institution's website and publications. Also, this is not considered a rapidly evolving area because these institutions tend to be highly bureaucratic, so there is plenty of red tape involved.

## 7. Financial Services

The financial services sector—understood here as an umbrella term to include areas such as asset management, stock brokerage, and investment fund management, as well as other banking, intermediation, consumer finance, and foreign exchange

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services—represents the essence of the financial industry. Due to its international nature, this sector is a significant source of translation work.

Both the EU and the U.S. have reacted in response to the recent financial crisis. In October 2011, the European Commission published legislative proposals to reform the Markets in Financial Instruments Directive (MiFID).<sup>7</sup> These proposals represent a comprehensive and profound set of reforms that, if implemented, would lead to a reshaping across the EU of the financial markets and also of the products and services that banks and investment firms provide. The proposals are scheduled for implementation at the end of 2015. In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in July 2010 in order to improve accountability and transparency in the financial system. It is designed to protect the American taxpayer by ending bailouts and to protect consumers from abusive financial services practices.

The level of complexity of the translation work in this area can be considered high, largely due to the opaque nature of traditional financial services. The potential volume of work should also be considered high due to its international nature and the high prevalence of financial services at all levels. The availability of reliable information can be considered medium, as it can be obtained from both official financial

institutions and private entities. This is not a rapidly evolving area because both reforms are highly political and bureaucratic.

## 8. Insurance

Insurance documents are considered to be some of the most complex and challenging for financial translators. One of the major developments in the industry is the introduction of Solvency II (also known as Basel for insurers), which primarily concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.<sup>8</sup> In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act also has significant implications for the insurance industry, including the creation of the Federal Insurance Office (FIO) to monitor all aspects of the insurance industry and to identify gaps in the state-based regulatory system.<sup>9</sup> Finally, the adoption of IFRS has also affected the industry, with new accounting rules for insurers, including proposed changes such as IFRS 4 Phase II – Insurance Contracts,<sup>10</sup> IFRS 9 – Financial Instruments,<sup>11</sup> as well as other corresponding proposals in the U.S., all of which are highly complex.

The potential volume of work in this area can be considered medium, perhaps because it is less international than other financial sectors. The level of complexity of the work is undoubtedly high, involving plenty of specialized terms and complicated

calculations. The reliability of the information available is considered low due to its opaque nature. The insurance industry is not considered a field that evolves rapidly because both the terminology and the nature of the business tend to be long-term.

## 9. Investment Management

The mention of the investment management sector here refers mainly to the areas of asset and fund management (i.e., the professional management of various assets in order to meet specified investment goals for the benefit of investors). Investment funds generate a significant amount of work for translators due to the need to keep investors informed on a timely and ongoing basis. Since July 2011, the EU's Undertakings for Collective Investment in Transferable Securities IV directive requires investment funds to produce crucial investor information documents, which replace simplified prospectuses.<sup>12</sup> Investor documents must be produced for each share class of each fund, and in at least one national language of each country in which the fund is marketed. In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act also requires numerous investment advisers, hedge funds, and private equity firms to be subject to these new registration requirements.

The potential volume of work in this area can be considered high due to the international nature of investors. This type of work is also relatively complex, with plenty of industry-specific terms. The volume of reliable information available is considered medium due to its relatively high level of presence and its opaque nature. This is considered a rapidly evolving sector because of its intangible nature and increased marketing.

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## 10. Public Sector

The public sector is that portion of society controlled by national, state or provincial, and local governments. Although national public sector bodies (e.g., agencies responsible for providing such services as social programs and urban planning) and governments may not initially appear to be prime financial translation buyers, the current economic situation means that they are increasingly subject to international reputation and are dependent upon international financial investors. This explains the increase in financial information being generated and translated by them. In relation to the current economic climate, it is important to highlight that, while the effects of the global financial crisis hit the private sector full force in 2008, it took another three years before the public sector began to feel the pain. As a result of this "delay" in addressing the crisis, most governments are now trying to reduce their deficits in various ways and are more eager than ever, especially in the Eurozone, to let the international community know about their initiatives and achievements. The result is an increased demand for translation.

The level of complexity of the initiatives being implemented by national governments can be considered medium-high, especially those relating to the Eurozone crisis. The potential

volume of work available can also be considered high, although access to work with government institutions is not as open as in the private market because jobs are filtered through various tendering processes. The availability of information can be considered low-medium, as it has to be obtained from the relevant government body. This is also not a rapidly evolving sector because governments tend to be highly bureaucratic, which means there is plenty of red tape involved. The initiatives proposed also tend to be of a long-term nature.

## Summing Up

Significant developments within the global economy carry a number of implications for financial translators. By providing an overview of some of the "hot topics" affecting 10 sectors that make up the backbone of the financial translation industry, I have tried to identify useful areas for additional focus. Doing so will help translators tackle future assignments in a more confident and accurate manner.

## Notes

1. Joined Up Writing – Surveying Annual Reports (Deloitte, 2012), <http://bit.ly/Deloitte-Annual-Reports>.
2. International Financial Reporting Standards, [www.ifrs.com/updates/aicpa/ifrs\\_faq.html](http://www.ifrs.com/updates/aicpa/ifrs_faq.html).

3. "Securities and Exchange Commission, Commission Statement in Support of Convergence and Global Accounting Standards," [www.sec.gov/rules/other/2010/33-9109.pdf](http://www.sec.gov/rules/other/2010/33-9109.pdf).
4. Dodd-Frank Wall Street Reform and Consumer Protection Act, [www.sec.gov/about/laws/wallstreet-reform-cpa.pdf](http://www.sec.gov/about/laws/wallstreet-reform-cpa.pdf).
5. BASEL III, [www.basel-iii.world-finance.com](http://www.basel-iii.world-finance.com).
6. "Trade Growth to Ease in 2011, But Despite 2010 Record Surge, Crisis Hangover Persists," World Trade Organization Press Release (April 7, 2011), <http://bit.ly/wto-pr-April2011>.
7. Investment Services Directive – Markets in Financial Instruments Directive (MiFID), <http://bit.ly/ec-europa-eu-MiFID>.

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**International institutions (such as the United Nations and institutions of the European Union) tend to be large employers of in-house translators and significant buyers of translation.**

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8. Solvency II (Financial Services Authority, 2013), [www.fsa.gov.uk/solvency2](http://www.fsa.gov.uk/solvency2).
9. More information on the Federal Insurance Office can be found on the websites of the National Association of Insurance Commissioners ([www.naic.org/cipr\\_topics/topic\\_fio.htm](http://www.naic.org/cipr_topics/topic_fio.htm)) and the U.S. Department of the Treasury (<http://bit.ly/treasury-federal-insurance>).
10. IFRS 4 Phase II – Insurance Contracts, [www.iasplus.com/en/standards/standard44](http://www.iasplus.com/en/standards/standard44).
11. IFRS 9 – Financial Instruments, [www.iasplus.com/en/standards/standard49](http://www.iasplus.com/en/standards/standard49).
12. Revisions of the Undertakings for Collective Investment in Transferable Securities IV, <http://bit.ly/ec-europa-eu-revisions-UCITS>.

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