

Global Accounting Standards— From Vision to Reality

Assessing the State of IFRS Adoption, Jurisdiction by Jurisdiction

By Paul Pacter

In June 1973, in recognition of the rapid globalization of the world's capital markets, the professional accountancy bodies in nine countries, including the United States, created the International Accounting Standards Committee (IASC). The IASC's stated mission was to "formulate and publish in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements" (<http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156304264>). Those nine professional bodies pledged in writing to use their best efforts to get the newly launched set of International Accounting Standards (IAS) adopted in their home countries and to "promote their worldwide acceptance" and observance.

By 2000, the IASC had pretty much done what was expected of it—that is, develop a comprehensive body of accounting standards that was endorsed by the International Organization of Securities Commissions (IOSCO) and by the International Federation of Accountants (IFAC). The trouble was that not one of the nine founding countries had yet adopted these standards.

At that same time, the European Union (EU) was debating whether to develop its own accounting standards for listed companies across Europe or to adopt the IAS as Europe's standards. It chose the latter, which triggered similar adoption decisions in a number of jurisdictions outside of Europe, including Australia, New Zealand, Hong Kong, and South Africa. Most of those adoptions were effective in 2005. Public expressions of support for the concept of global accounting standards were soon forthcoming from the G20, the World Bank, the International Monetary Fund (IMF), and the Basel Committee, among many other groups concerned with the global financial system.

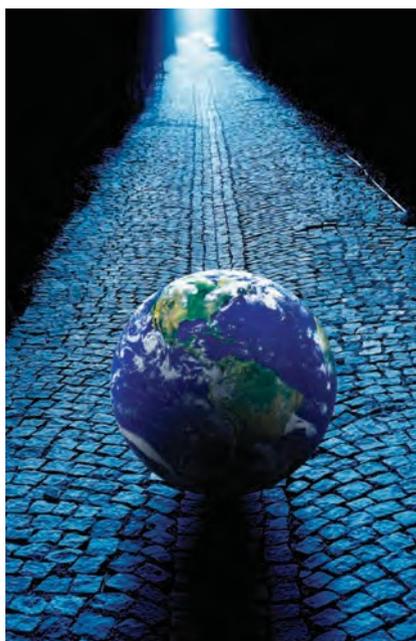
Formation of the IASB

As a consequence, in 2001 the old part-time, poorly resourced IASC was restructured into the full-time, better-financed IASB, under the oversight of a new IFRS Foundation. In the 12 years since the reform of the IASC, the IASB has produced many new standards under IFRS and has overhauled the standards it inherited from the IASC. More than 100 jurisdictions have now adopted IFRS.

But during that time, an odd thing was happening: the producer of the IFRS product (the IASB and IFRS Foundation) did not pay close attention to exactly who the consumers were or exactly how they were using the product. Adoption of IFRS is not black or white (yes or no)—it is shades of gray. For example, is IFRS for listed companies only or unlisted as well? Is it only for some unlisted companies, such as financial institutions? Is it required or permitted? Is it for consolidated financial statements only or also for separate company statements? Is it for domestic listed companies only or foreign listed companies as well? Are IFRSs written into law? Is there some sort of endorsement process and, if so, is that done on a timely basis? Did the jurisdiction add any disclosures or other requirements? Did it make any modifications to IFRSs? Did it change the effective dates? Does the process for translating IFRSs from the original English ensure a faithful translation?

In February 2012, the Trustees of the IFRS Foundation completed a strategy review and published their report. They

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reaffirmed their commitment to achieving the vision of global accounting standards. At the same time, the Trustees acknowledged that they needed detailed answers to adoption questions country by country. The Trustees' report said:

The Trustees remain committed to the belief that a single set of International Financial Reporting Standards (IFRS) is in the best interests of the global economy, and that any divergence from a single set of standards, once transition to IFRS is complete, can undermine confidence in financial reporting." ("IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade," IFRS Foundation, <http://www.ifrs.org/Theorganisation/Governance-and-accountability/Strategy-Review/Documents/TrusteesStrategyReviewFeb2012.pdf>, p. 11)

The trustees went on to say:

With co-operation from national and international market and audit regulators, accounting standard-setters, regional bodies involved with accounting standard-setting, and accountancy bodies, the IFRS Foundation should seek full disclosure where adoption of IFRS is incomplete or where there is divergence from the full set of IFRS as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRS without adopting IFRS fully. (Trustees 2012, p. 11)

Assessing IFRS Adoption

In late 2012, the IFRS Foundation began working on a comprehensive project to assess progress toward the goal of global accounting standards, directed by this author. The project has three related objectives:

- To develop a central source of information to chart jurisdictional progress toward global adoption of a single set of financial reporting standards
- To respond to assertions that many national variations of IFRS exist around the world
- To identify how the IFRS Foundation can help countries progress on their path to adoption of IFRS.

To achieve the first of those objectives, the IFRS Foundation is developing and publishing profiles about the use of IFRS in individual jurisdictions. Using information from various sources, including a survey of standards-setting bodies, the foundation drafted the profiles and invited the respondents to the survey and others (including regulators and international audit firms) to review the drafts. Their comments are reflected in the reported findings.

Currently, profiles are completed for 122 jurisdictions (see <http://go.ifrs.org/global-standards>). Each profile shows, among other things, details on the survey participant, whether the jurisdiction has made a public commitment to global accounting standards, the extent of IFRS application (which companies? required or permitted? consolidated only? unlisted also?), the endorsement process, wording of the auditor's report, whether the jurisdiction has eliminated options or made modifications, the process for the translation of IFRS, and adoption of IFRS for Small and Medium-Sized Entities (IFRS for SMEs). Ten observations stand out as learning points from the 122 jurisdiction profiles.

Nearly All Jurisdictions Have Publicly Stated a Commitment in Support of Global Accounting Standards

Of the 122 jurisdictions studied, 115 have made such a public statement. Only 7 have not: Albania, Bermuda, Cayman Islands, Egypt, Macao, Paraguay, and Switzerland.

Nearly All Jurisdictions Have Publicly Stated That IFRS Should Be the Global Accounting Standard

All but 5 of the 122 jurisdictions have made such a public statement; the exceptions are Bermuda, the Cayman Islands, Egypt, Macao, and Switzerland. Although Switzerland has not made a formal public statement that IFRS should be the global accounting standard, the Swiss government accepts IFRS as issued by the IASB (in addition to the IFRS for SMEs, U.S. GAAP, International Public Sector Accounting Standards [IPSAS], and Swiss GAAP FER) as an acknowledged account-

ing framework in accordance with the Swiss Code of Obligations. In addition, 84% of the companies on the main board of the Swiss stock exchange use IFRS. Similarly, although Bermuda and the Cayman Islands have not made a formal public statement that IFRS should be the global accounting standard, IFRS is permitted and frequently used in both jurisdictions.

IFRS Is Required for Listed Companies in Most Jurisdictions

In total, 101 (83%) of the 122 jurisdictions profiled require IFRS for most or all domestic listed companies. This includes several jurisdictions that do not have stock exchanges but require IFRS for banks and other publicly accountable entities.

Most of the Remaining Jurisdictions Do Use IFRS to Some Extent

The remaining 21 jurisdictions that do not yet require IFRS for all or most domestic listed companies do, nonetheless, use IFRS to some extent:

- 10 permit IFRS for at least some listed companies (including Japan and India).
- 2 require IFRS for financial institutions (including Saudi Arabia and Uzbekistan).
- 2 others are in process of adopting IFRS (including Thailand and Indonesia).
- 7 use national standards (including China and the United States).

The Majority of Jurisdictions Requiring IFRS for Listed Companies Also Require IFRS for Certain Unlisted Companies

Approximately 60% of the 101 jurisdictions that require IFRS for listed companies also require IFRS for unlisted financial institutions or large unlisted companies. Those jurisdictions regard banks, insurance companies, and other economically significant companies, as publicly accountable.

Nearly All of the Jurisdictions That Have Adopted IFRS for Listed Companies Also Permit IFRS for Unlisted Companies

Approximately 90% of the 101 jurisdictions that have adopted IFRS for listed companies also require or permit IFRS for many unlisted companies.

Modifications to IFRS Are Rare

This finding is important because it responds to the incorrect assertions that there are many national variations of IFRS around the world. What kinds of modifications were found?

EU: the much-publicized IAS 39 carve-out. The EU describes the carve-out from IAS 39, *Financial Instruments: Recognition and Measurement*, as “temporary.” It is used by fewer than two dozen of the 8,000 listed companies in the EU—99.5% of EU-listed companies use IFRS as issued by the IASB.

Effective dates. A few jurisdictions have deferred the effective dates of several standards, notably IFRSs 10 (*Consolidated Financial Statements*), 11 (*Joint Arrangements*), and 12 (*Disclosure of Interests in Other Entities*). Most of those deferrals terminated on January 1, 2014.

Modifications or deferrals pending completion of IASB projects. Several jurisdictions permit the use of the equity method in separate financial statements (e.g., Argentina, Brazil, Taiwan, Uruguay). Several use a regulatory measurement for loan loss provisions of financial institutions (e.g., Chile, Serbia). Canada has deferred the mandatory adoption of IFRS by rate-regulated companies until 2015. All of these issues represent active projects on the IASB’s agenda.

Older version of IFRS adopted by law or regulation. Four jurisdictions have not adopted the current versions of IFRS (Macedonia, 2009 version; Myanmar, 2010 version; Sri Lanka, 2011 version; and Venezuela, 2008 version). Those jurisdictions are working to bring their adoption up to date.

Other modifications of IFRS. The study found a number of other modifications:

- Pakistan has not adopted IFRS 1, *First-Time Adoption of IFRS*; IFRS Interpretations Committee (IFRIC) 12, *Service Concession Arrangements*; or IFRIC 15, *Agreements for the Construction of Real Estate*. For banks, Pakistan has not adopted IAS 39; IAS 40, *Investment Property*; and IFRS 7, *Financial Instruments: Disclosures*. The bank regulator prescribes its own standards.
- In Serbia, the National Bank of Serbia requires certain accounting treatments

that differ from IFRS for banks, insurance companies, pension funds, and other financial institutions. For example, the treatment of loan loss provisions for banks and the recognition and impairment of premium receivables by insurance companies differ from IFRS.

- Sri Lanka made some modifications to IAS 34, *Interim Financial Reporting*; IAS 40; and IFRS 7. Sri Lanka has adopted IFRIC 15, but the effective date has been deferred. In addition, the Sri Lanka version of IAS 41, *Agriculture*, allows measurement of bearer biological assets (for example perennial crops such as tea, rubber, and coconut) as property, plant, and equipment under the Sri Lanka version of IAS 16, *Property, Plant and Equipment*. The fair value requirement in IAS 41 is an option.

- In Uzbekistan, while IFRS has been adopted for banks, banks applying IFRS use certain prudential accounting requirements established by the Uzbekistan Central Bank that are different from the related IFRS requirements.

In a Majority of Jurisdictions, the Auditor’s Report Refers to Compliance with IFRS as Issued by the IASB

In 70 of those jurisdictions where IFRS is required or permitted, the auditor’s report refers to compliance with IFRS. In another 33 jurisdictions, the auditor’s report refers to compliance with IFRS “as adopted by the EU.” In the remaining 19 jurisdictions, the auditor’s report refers to national standards—in some of those cases, such as Hong Kong and Malaysia, the national standards are virtually identical to IFRS.

Most Jurisdictions Do Not Individually Endorse IFRSs

The EU/European Economic Area (EEA) has an endorsement process that involves endorsement advice and an effects study from the European Financial Reporting Advisory Group (EFRAG), a favorable vote of the Accounting Regulatory Committee (ARC), favorable opinions of the European Parliament and the Council of the European Union, and publication in the *Official Journal of the European Union*. The EU/EEA and EU candidate countries represent 33 jurisdic-

tions. Most (78%) of the remaining 89 jurisdictions that require or permit IFRS for domestic companies do not go through an endorsement process for individual new or amended IFRSs.

The following is a summary of the approaches to endorsement in the 122 jurisdictions for which profiles are posted:

- No endorsement is required in 52 jurisdictions.
- EU process is used in 33 jurisdictions.
- Endorsement is done solely by a professional accounting body in 10 jurisdictions.
- Endorsement is done solely by a government agency in 12 jurisdictions.
- Endorsement involves both a professional body and government in 6 jurisdictions.
- IFRS is not yet required or permitted for any domestic companies in 9 jurisdictions.

Most Jurisdictions Permit IFRS for SMEs or Are Considering It

Of the 122 jurisdictions surveyed, 57 require or permit IFRS for SMEs; another 16 are actively considering it. Several of those 57 jurisdictions have made modifications (mostly small) in adopting IFRS for SMEs. Of the 57 that require or permit IFRS for SMEs, 7 require it for all SMEs that are not required to use full IFRS; 34 give SMEs the option to use full IFRS instead; 15 give SMEs the option to use either full IFRS or local GAAP instead of IFRS for SMEs; and 1 jurisdiction requires local GAAP if an SME does not choose IFRS for SMEs.

Next Steps

The Trustees of the IFRS Foundation are currently working to develop several dozen more jurisdiction profiles beyond the 122 already posted. The goal is to have a profile for each jurisdiction that uses IFRS or is on a path toward adoption. In addition, the Trustees plan to do a follow-up survey in early 2014 with the following three objectives:

- Reaffirm initial data or determine whether any circumstances have changed.
- Fix one or two matters that were unclear on the original survey.
- Obtain additional information about IFRS adoption. Examples include infor-

mation about dual reporting (asserting compliance with both IFRS and national GAAP); whether a jurisdiction prohibits early adoption of a new or amended IFRS, even if early adoption is permitted; whether the jurisdiction has added any accounting standards or disclosures that are mandatory for the fair presentation of financial statements described as conforming to IFRS; and whether the jurisdiction requires IFRS financial statements to be published using Extensible Business Reporting Language (XBRL).

The formation of the IASC in 1973 was based on a vision of a common account-

ing language around the world, so that capital providers would not be forced to make back-of-the-envelope adjustments to try to compare investment opportunities across borders—or worse, so that capital providers would not end up making sub-optimal decisions because of false or misleading comparisons. The first 122 profiles of jurisdictions regarding their adoption or consideration of IFRS provide solid evidence that IFRS has already become the de facto global language for financial reporting; 101 of those jurisdictions already require IFRS for all or most domestic listed companies, and many of the

remaining 21 permit IFRS for at least some domestic listed companies. Very few jurisdictions have made modifications to the standards. As Loretta Lynn sang back in 1978, “We’ve come a long way, baby.” **q**

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