

Topic

Who is implementing IFRSs – and how?

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.



Who is implementing IFRSs - and how?

IFRS Advisory Council
London, June 2011

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IASB Member

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Overview of this session

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- **Adoption of full IFRSs – now and planned**
- **Adoption of IFRS for SMEs**
- **What exactly does adoption mean**
- **Different ways of adopting IFRSs**
- **Challenges in adopting IFRSs**
- **Rigorous application and enforcement**
- **Trustees' 2011 Strategy Review**
- **Issues for break-out discussion groups**



Use of full IFRSs around the world today

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For domestic <u>listed</u> companies:	Number of Jurisdictions
IFRSs required for all	93
IFRSs required for some	6
IFRSs permitted	24

Today, IFRSs are used by listed companies in 123 jurisdictions.



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Use of full IFRSs around the world today

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For domestic <u>unlisted</u> (private) companies:	Number of Jurisdictions
IFRSs required for all	25
IFRSs required for some	29
IFRSs permitted	44

Today, IFRSs are used by unlisted companies in 98 jurisdictions.



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Fortune Global 500 (July 2010)

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Which GAAP?	2010	Based on announced plans	
		2013	If Japan 2015
IFRS and word-for-word equivalents	39%	46%	60%
US GAAP	31%	31%	28%
National GAAP	30%	23%	12%
Totals	100%	100%	100%

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Fortune Global 500 (July 2010)

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Increases from 2010 to 2013 (listed companies):

	Switch to IFRSs	No. G500 co's
Brazil	2010	7
Canada	2011	11
Malaysia	2012	1
Mexico	2012	2
Singapore	2012 (nearly IFRS now)	2
S. Korea	2011	10
Taiwan	2013	8

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Fortune Global 500 (July 2010)

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After 2013, remaining non-IFRS (listed companies):

	Comments	No. G500 co's
China	Adopted main IFRS principles	46
India	Proposed many modifications to IFRSs. Would not be IFRS.	8
Japan	Seriously considering 2015 or 2016	71 (54 J-GAAP & 17 US GAAP)
Russia		6
Saudi Arabia		1
Thailand		1
USA	SEC Roadmap	139

Use of IFRSs Around the World Today

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Some license taken in the foregoing data:

- The 30 EU/EEA countries are counted as IFRS because carve-out affects few, endorsement is 98% timely
- Countries that adopt word-for-word are counted even though audit report refers to local GAAP

What about the United States?

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- **SEC has authority to set accounting standards for public companies**
 - Delegated to private sector: AICPA 1937-1972, then FASB since 1973
- **Since 2008, foreign companies listed in US can use IFRSs without reconciliation to US GAAP**
- **SEC now studying whether to allow domestic registrants to use IFRSs**
 - Published a Roadmap, a Work Plan, two updates

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What about the United States?

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- **2011 is a key year regarding IFRSs in the USA:**
 - Completion of nine-year joint IASB-FASB convergence programme
 - US SEC will make a decision regarding use of IFRSs by US public companies
 - Expected before the end of 2011

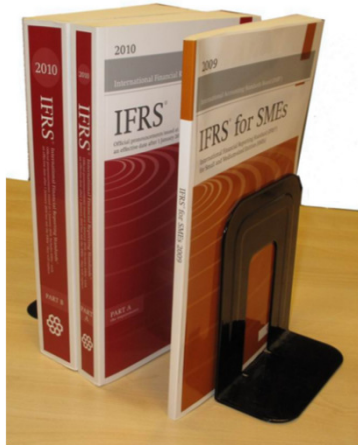
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The IFRS for SMEs

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Good Financial Reporting Made Simple.



- 230 pages (full IFRSs 3,000+)
- Simplified IFRSs – built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
 - User needs for information about short-term cash flows, liquidity, and solvency
 - Costs and SME capabilities
- Final standard issued July 2009

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SMEs: Jurisdiction plans for adoption

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Today (June 2011), to the best of our knowledge:

- **73 jurisdictions** have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years

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SMEs Adoptions: some examples

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- **South America:** Argentina, Brazil, Chile, Guyana, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
- **Africa:** South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zimbabwe

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SMEs Adoptions: some examples

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- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka
- **Middle East:** Jordan, Lebanon, Palestine, Qatar
- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs.
- **Available for use:** United States, Canada

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SMEs Adoptions: some issues

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- **Several jurisdictions have replaced the section on income taxes with IAS 12.**
 - This will affect only a very small minority of SMEs.
- **The great majority of jurisdictions have not imposed a size test.**
- **Some jurisdictions have retained a third (or even a third and fourth) tier of SME GAAP below IFRS for SMEs.**

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Ways of adopting (full) IFRSs

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Use of IFRSs means all Standards and Interpretations

Ideally:

- Adopt IFRS as country's reporting framework
- Without local endorsement or convergence
- IFRSs as issued by the IASB in full
- Audit report and basis of presentation note refer to conformity with IFRSs (full stop)

So far, at least, the ideal has been hard to achieve

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Ways of adopting IFRSs

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Where is the ideal achieved?

- South Africa
- Israel
- Many developing countries in the Caribbean and Africa
- For those countries, the standard setter is essentially in London

In most other countries, endorsement is required or IFRSs are adopted unchanged as national GAAP

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Ways of adopting IFRSs

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Adopt via local endorsement

- Europe, Canada, Japan, Hong Kong, Singapore, Brazil, Argentina, Chile, most other jurisdictions
- USA?

Issues with endorsement:

- Urge to tinker (though, fortunately, this has been quite limited)
- Time delay (this is a problem in some countries)
- Politicisation
- Cost

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Ways of adopting IFRSs

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Example – Europe:

- EU carve-out of 14 paragraphs from IAS 39
- EU ‘stealth’ adaptation – eg sometimes allowing separate without consolidated
- A few not endorsed until after effective date
- Audit report refers to IFRSs as adopted in the EU

US SEC staff proposal: Julie has covered

Paul comments on:

- China: Identical standards vs similar results
- Uruguay and Venezuela: Time delays
- Philippines: Tinkering

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Ways of adopting IFRSs

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But carve-outs and use of out-of-date IFRSs are the exception, not the norm

- Most jurisdictions adopt or incorporate into national GAAP word for word and timely
- Admittedly we do not always know

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Ways of adopting IFRSs

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Adopt word for word (no time lag) as national GAAP – convergence

- Similar problems to endorsement, plus:
- What does audit report refer to?
- If not IFRSs, will users understand?
- If SEC registrant, reconciliation required

If adopted by law, additional problem:

- Difficulty in keeping the law up to date
- Cannot refer to IFRSs if all effective standards have not yet been adopted under law

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Ways of adopting IFRSs

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If national GAAP is fully converged, what does audit report refer to?

- Compliance with local GAAP only?
 - “All the pain without all the gain”
- Dual reporting? A few countries:
 - Required: includes Australia
 - Permitted: includes UK, Canada

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Ways of adopting IFRSs

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Use of IFRSs – complications:

- Applies to which entities?
- Mandatory or optional?
- Only to consolidated financial statements?
- Also to separate company statements?
- Only to publicly accountable entities (publicly traded plus financial institutions)?
- Private also?

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Ways of adopting IFRSs

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Even when IFRSs are used in full, cross-jurisdiction comparability is affected by:

- Different adoption dates
- Different accounting policy choices
- Residual tendencies from past national GAAP

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Ways of adopting IFRSs

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World Bank ROSC Reports:

- Study accounting and auditing structures in nearly 100 countries
- Developing countries and emerging economies
- Compare national accounting and auditing standards with international standards
- Assess compliance
- Assess strengths and weaknesses of institutional support for high-quality financial reporting.

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Ways of adopting IFRSs

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Key observations from ROSC reports

1. IFRSs adopted as of a date, unchanged thereafter
2. IFRSs modified when adopted as local GAAP
3. IFRS financial statements prepared but not made publicly available (ie purely regulatory compliance)
4. Weak enforcement
5. Poor planning for phase-in of IFRSs

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Ways of adopting IFRSs

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Key observations from ROSC reports, continued

6. Lack of IFRS training of accountants
7. Need more implementation assistance
8. Bank, insurance regulators want 'prudential reporting', not investor/creditor reporting
9. Translations and copyright

http://www.worldbank.org/ifa/rosc_aa.html

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Excerpt from 2008 Thailand ROSC

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“The Thai program of converging TAS with IFRS is hampered by various constraints including inadequacy of resources at the disposal of the Accounting Standard-Setting Committee. Progress on issuing IFRS-based Thai accounting standards has been slower than anticipated due to the large volume of new and revised IASB-issued standards issued in the period 2003-07. Besides, the ASC and the FAP need time to carefully assess the suitability of IFRS requirements under the Thai environment...

“The convergence lag also reflects the need to translate all IFRS into Thai language.... The Accounting Standard-Setting Committee needs to adhere to the IASB translation processes to ensure consistent application of terms and a disciplined translation process.”

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Rigorous application and enforcement

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Rigorous application and enforcement are as important as good standards to achieve high quality financial reporting

- But these are not really IASB's issues
- IFRS Foundation education mission
- What else can IFRS Foundation do?

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Trustees' 2011 Strategy Review

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Three 'branding' recommendations:

1. Commitment to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB, with convergence as a possible means to fulfil this requirement

“Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.”

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Trustees' 2011 Strategy Review

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Three 'branding' recommendations, continued:

2. Seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB
3. Support consistent application of the standards through post implementation reviews, effective dialogue with other authorities, and refining the scope of the IFRS Interpretations Committee

Questions for Council discussion

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1. Paul's report suggests that local adaptation of IFRSs and endorsements delayed beyond effective dates are not common. Do Advisory Council members believe differently?
2. The best standards in the world won't result in high quality financial reporting unless the standards are rigorously applied and enforced. What can the IFRS Foundation and IASB do in this regard?

Questions for Council discussion

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3. How can the IFRS Foundation bring about adoption, rather than convergence, in the medium to long term?
4. What can IASB do to seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB? Should IASB issue a Practice Statement or Policy Statement of some sort (non-mandatory guidance)?

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Questions or comments?

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Thank you for your attention.

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.



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