Contact(s) **Jon Baldurs** jbaldurs@ifrs.org +44 (0)20 7246 6467

Topic

Summary of the IFRS 'branding' discussions at the June 2011 Advisory Council meeting

Overview

1. During the June 2011 meeting of the IFRS Advisory Council, Paul Pacter, an IASB member, gave a presentation on 'Who is implementing IFRSs—and how?' (IFRS 'branding'). The presentation focused on the following:

   (a) Adoption of full IFRSs and IFRS for SMEs (now and planned).

   (b) What exactly does adoption mean?

   (c) Different ways of adopting IFRSs and the challenges in adopting.

   (d) Rigorous application and enforcement.

2. The presentation also included four questions for the Council to discuss in small groups.

3. The Council then split into four small groups. The Council later reconvened and the leaders of the groups reported back on their group's discussions. The agenda paper for the discussions put the following questions to the Council:

   1. Paul's report suggests that local adaptation of IFRSs and endorsements that are delayed beyond effective dates are not common. Do Advisory Council members believe differently?

   2. The best standards in the world will not result in high quality financial reporting unless the standards are rigorously applied and enforced. What can the IFRS Foundation and the IASB do in this regard?

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

Report back

4. The results of the break-out groups were reported back in a full Council session. The main messages from the break-out groups were as follows.

Group 1

5. Jerome Haas led the first small group. He reported that the group had not responded directly to the questions that had been set. Instead, the group had looked at this issue both from the perspective of the market and from the perspective of the standard-setter.

6. From the perspective of the market: the main goal is to give information about the differences between the IFRSs and the standards that are actually being used in some countries. The national standard-setters have a role to play in making this information available. They also have the possibility to interact with one another. Looking further, they could exert some sort of peer pressure on one another in the broader process of adoption of IFRS. It is not currently possible for the IASB to police all of this.

7. From the perspective of the standard-setter: it does not appear possible in practice to protect the brand. How could we classify countries with respect to adoption, and in how many 'buckets'? For example, one bucket for where there is full compliance with IFRS and one for where there is not? Then you are left with a middle bucket. It is hard to find the boundaries for the middle bucket where you would have those that are still not deemed to be applying full IFRSs (whether because of delayed timing or because of substantive differences). It is

essential to mention that such differences should translate into different roles for the governance of the IASB for countries in the last two buckets.

8. A member commented that narrative reconciliation is a good idea as opposed to line-by-line reconciliation.

Group 2

9. Gerard Ee reported the results of the second group's discussion. Mr Ee stated the group thought that the first question is not yet a problem. Any areas of delay can be explained by the avoidance of costs arising from subsequent changes. Other delays would be due to legislative obstacles or to the complexity of the translation process. Some countries do not allow early adoption, to prevent cherry-picking. First-time adopters should be able to avoid two rounds of changes. When the new standards require two to three years of data, a delay could result from practical considerations. There are countries that adopted IFRSs as of 2004 and have stopped there. These countries sometimes assert compliance with full IFRS, although it is only the 2004 version that has been adopted. In conclusion, for those who are keeping pace with the changes and introduction of IFRSs, the delays are seen as resulting from the reasons stated above.

10. The group acknowledges that the application of the standards has lacked consistency. There has been uneven application of IFRSs and some countries have resorted to carve-outs. The group felt that enforcement is not within the domain of the IFRS Foundation and the IASB. Instead, IOSCO should conduct the monitoring. Companies should be required to state clearly which set of standards they are applying and where a copy of those standards can be obtained. At the very least, companies should be in compliance with one set of accounting standards, even if it is the 2004 version of IFRSs. There must be a clear distinction between a complete adoption and partial adoption and disclosures should be made in cases in which there has been a departure from the full IFRSs. Compliance should be company-specific and companies should be scanned for specific compliance.

11. The Foundation must state clearly that the primary objective that it seeks is adoption of the IFRSs and not merely convergence. In earlier years the push was towards achieving convergence. Consequently, the Foundation must make it clear that the ultimate aim is to have all countries adopt the IFRSs. The Foundation must deal with all stakeholders. If auditors, especially the major accounting firms, do not stand by the standards, then there will be unevenness in the application of the IFRSs. The Foundation must promote the IFRSs based on their high quality, which is evidenced by the due process in the setting of the standards. The Foundation must demonstrate that, because of the high quality of the IFRSs, growing markets are choosing IFRSs over any other possible alternatives. The Foundation could consider enforcing its ownership of the intellectual property over the IFRSs by disallowing use of the wording of the standards except where it has been fully adopted. This could include disallowing any claim of compliance with the standards, but to allow for exceptions, which must be clearly disclosed.

12. The IASB has to work more closely with national standard-setters. Through the MOUs the IASB could require the national standard-setters to disclose fully where there is divergence or non-adoption. The IASB could require that no entity can claim compliance with the IFRSs unless it has fully adopted the IFRSs. The IASB should seek help from the Monitoring Board and IOSCO on tracking compliance and dealing with the delinquents.

Group 3

13. Reyaz Mihular presented results of the third group's discussion. This group concluded that the standard-setter needs to look at the different types of countries that are adapting IFRSs: For example, the EU—in their case, the delays were minor. There are some standards for which countries pick and choose from different adoption dates. Something has to be done about that.

14. On question 2, the responsibility for enforcing the IFRS is not the responsibility of the IASB. It should want to protect its brand, but maybe the IASB should put a list of all the different countries on their website and list what the different

carve-outs are to make it public and transparent. In that way, when anyone reads financial statements from different regions, they know what is going on. A question was whether the IASB should ban any use of IFRS that is not full IFRS. There is a need to keep IFRS alive, so the group thought that this would not be productive.

15. On question 3, in the long term, people will adopt if they are given more time and if the IASB produces high quality standards. Time may be the answer. For example, the Chinese felt that full adoption was not practical and they do not agree with forcing full adoption. A view was expressed that ‘condorsement’, which is currently being discussed, may be a way forward to achieving full adoption in the long run.

Group 4

16. Benoit Onana reported on the fourth group’s discussions. According to Paul’s statement we can take the case of Europe which decided to adopt IFRSs in 2002. Implementation was then planned for and happened in 2005. Europe laid down carve-outs to IAS 39 and there seems to be a more common trend not to adopt the standards word for word. Some will make adaptations, but there seems to be an increasing tendency to adopt standards as written with local regulatory implementation guidance. The Republic of Korea and the Philippines are adopting with interpretations and Malaysia is not adopting fully. Brazil also has a particular perception. All these countries say that they are adopting but not in the same way. The Interpretation Committee should work more closely with adopting countries and they should be referred to it when they encounter problems and need interpretations or additional guidance. If the standards are not consistently applied then there is a problem. A high level of educational guidance to implement IFRS would be good to reduce the divergence. Adoption is one thing, but implementation is another.

17. On question 2, the group thinks that in terms of adoption, except in some cases such as Europe, adoption is in reality a process and even in the case of the United States we can say that many steps need to be taken before adoption is

possible. The process for adoption depends on the size of the country. The involvement of preparers on one side and regulators on the other side may be useful. High level output from the IASB may therefore be needed and more interpretations may be necessary. These activities should be performed through workshops for sensitisation and mastering of concepts, and through more research and outreach for better understanding. The 'human' factor should not be left out, because the standards may be understood but not applied correctly for various reasons. Finally, the group thinks that the IFRS Foundation should review carve-outs (exceptions) by countries (jurisdictions) and decide whether the country can use the term 'IFRS as endorsed' in audit reports.

18. Regarding question 3, convergence is a way of adoption. In other words, you have to adopt at some point. In the case of convergence with US GAAP, nobody expected immediate adoption by the SEC. However, after years of working on the Memorandum of Understanding; it appears that adoption at some point might be the best and ideal solution. Convergence will therefore be seen as a way bringing about adoption. Some jurisdictions may decide for convergence (eg India). Some may adopt with carve-outs. The existence of carve-outs does not mean that full adoption will not necessarily take place. A special focus may arise when an entity is applying national GAAP for local use and reporting to the parent (holding) entity using IFRS. Guidelines may be difficult to establish because methods of interpretation and involvement are not common to all the entities.

19. To judge whether applying or not may be gauged from the reporting in financial statements, which means that auditors may have an important role to play in establishing how far the IFRS are applied. It is therefore useful to help at the jurisdiction level with the detail of interpretation, but also more generally, with orientation. Interpretations in individual cases may be the first line of help; special incentives for specific differences may be sought and common experience can be shared.

20. A list of such exceptions should be held and published by the IFRS Foundation. National standard-setters could help to keep this list up to date by making

proposals to be deliberated by the IASB. Also, companies should be encouraged to explain which, if any, local exceptions they apply in preparing their financial reports.

21. On question 4—when divergence or discrepancy exists between what is found and the normal application of IFRSs, the situation has to be disclosed as clearly as possible. There may be technical difficulties; for example, time for investigation may not be available and competent resources may not be easy to find. These elements should be disclosed. It is advisable for the IASB to issue practice or policy statements to promote uniformity and comparability. If the IASB is not yet clear about some issues, the guidance should be non-mandatory while waiting for the situation to become clearer. Guidance may also take the form of workshops, outreach testing, visits or exchanging of experiences. It is necessary to have an element of disclosure on how IFRS is being used to allow the public to know.

General discussions

22. A member asked when local jurisdiction adoption is equal to IFRS. At some point they can use the term IFRS even though there are some minor carve-outs. This point as to what the boundary is was extensively discussed by his group. When do an accumulation of exceptions mean that they are not IFRSs? How should one encourage issuers to make a disclosure to allow the auditor to understand what the differences are?

23. Another member commented that looking at the statistics Paul Pacter had sent him, you find that the number of countries in compliance and with few carve-outs is actually very small. He was also happy to share his maths with anyone who wants it.

24. The Chair, Paul Cherry, said that there is concern about the term that we call ‘brand’ and every group has come back to that in these discussions. Everyone agrees that a ‘brand’ is important, but the definitions differ. The tests are how the markets perceive our standards; and so we have to be very clear about what package of standards we consider to be our standards. In addition, there needs

to be clarification on which version is being applied. There is an important distinction between achieving consistency in terms of which standards are being used in various regions and the equally challenging objective of consistent interpretation and application of those standards. There could be some help from the standard-setters for doing this. Consistent application of IFRS is not the responsibility of the Board or the Trustees, although they should be sensitive to assisting others in doing that. The information about departures from IFRS would be useful, but it would fall more under the responsibility of regulators than of the IASB. No one was talking about more emphasis on convergence; most people were focused on adoption. Perhaps the best way to encourage adoption is to be able to demonstrate, and to have the marketplace accept, that IFRS is high quality and serves all stakeholders. If that can be demonstrated, then the value of adopting those standards is more evident.

25. Paul Pacter had a similar reaction to the Chair. He had been shocked by someone who had said that they would not be ready for the updated IFRSs.

26. David Tweedie said that listening to the debate, it was evident that if we want to have global accounting regulation, we need the accounting architecture to be the same. We know that some countries do not like certain aspects of our IFRSs. India is proposing twelve carve-outs; is that OK? The issue is what do we do about it? Do you vote against a standard because there is one bit that you do not like, or do you cast your vote on the basis of a feeling that you think that the overall standard is better than the one it is replacing, with a few aspects that you do not like? If you do not agree with certain aspects of the standard, bring it to your national standard-setter and see what they think. If they do not like it, come to the IASB and tell us. The idea is to change the standards from the inside, not carving them out. Observing the breach—if you follow IFRS you are required to say it. Something we may need to do is a four-way dialogue with IFAC, IASB, IOSCO and the national standard-setters. If you pick up a set of accounts, you do not know if it is IFRS or not. If you use IFRSs, you have to show that it is in compliance. The IASB is not keen on the reconciliation, but

wants to know if you are in or you are out. This way the user can tell if it is pure IFRS or not.

27. The Chair then went on to discuss the next steps. He thought that it would make sense to start by going to the national standard-setters to try to get some information about compliance with IFRSs. You could say that for those countries that incorporate IFRS in their standards word for word, such as Canada, then you could add something else. You could go back to the standard-setters and say that there is compliance not only with the national standards, but also with IFRS. Is it reasonable to ask? The Council could discuss this further at its next meeting?

28. Wayne Upton, Director of Implementation Activities, said that the staff will take that on board in their discussions, and will write it up to take to the National Standard Setters meeting in Vienna in September.

29. A member said that there were two other parties are to this: preparers (issuers) and investors. It will be an interesting to know why preparers do not have an interest in stating compliance with IFRSs. In Europe, it is known how the framework aligns with IFRS, so there is not the incentive to do that, because most investors will not fall into misunderstandings when reading the financial statements. This may however vary by country or jurisdiction.

30. A Board member commented that in Australia they did not feel as though they were getting the acknowledgement of IFRS compliance. The law was therefore changed to allow dual reporting of national GAAP and IFRSs, but there was no incentive. Why should management take on the added responsibility of dual reporting? Consequently, the law was changed to require it.

31. A member commented that he thought that the Council should consider revisiting this topic at the next meeting.