AGENDA PAPER

Meeting of the Monitoring Board with the IFRS Foundation Trustees

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Use of IFRS Around the World: What We Have Learned So Far

The Vision of Global Accounting Standards

The vision of global accounting standards has been publicly supported by many international organisations, including the G20, World Bank, IMF, Basel Committee, IOSCO, and IFAC.

In their Strategy Review Report published in February 2012, the Trustees of the IFRS Foundation reaffirmed their commitment to achieving that vision. The Report said:

> "We 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."

The Trustees went on to say:

> "Convergence may be an appropriate short-term strategy for a particular jurisdiction and 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, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRSs as issued by the IASB."

Assessing Progress toward the Goal of Global Accounting Standards

To assess progress toward the goal of global accounting standards, the Foundation has undertaken a comprehensive project with three related objectives:

1. To develop a central source of information to chart jurisdictional progress toward global adoption of a single set of financial reporting standards.

2. To respond to assertions that there many national variations of IFRS around the world.
3. To identify where IFRS Foundation can help countries progress on their path to adoption of IFRS.

To achieve the first of those objectives, the Foundation is developing and posting profiles about the use of IFRS in individual jurisdictions. The Foundation used information from various sources to develop the profiles. The starting point was the responses provided by standard-setting and other relevant bodies to a survey that the Foundation conducted. 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.

Currently, profiles are completed for 122 jurisdictions, which may be found here: http://go.ifrs.org/global-standards The geographical split is as follows:

Africa	18 jurisdictions
Americas including Caribbean	30 jurisdictions
Asia-Oceania	26 jurisdictions
Europe	42 jurisdictions
Middle East	6 jurisdictions
Total	122 jurisdictions

We hope to have a profile for every jurisdiction that has adopted IFRS, or that is on a programme toward adoption of IFRS.

Each profile shows, among other things:

- Survey participant details.
- Whether the jurisdiction has made a public commitment to global accounting standards.
- Extent of IFRS application: Which companies? Required or permitted? Consolidated only? Unlisted also?
- IFRS endorsement: Process, legal authority, auditor's report.
- Did the jurisdiction eliminate options? Make modifications?
- Process for translation of IFRS.
- Adoption of the IFRS for SMEs.

What Have We Learned So Far – Overall?

Overall observation based on the profiles on the use of IFRS in 122 jurisdictions that are now posted on the IFRS Foundation's website:

OVERALL OBSERVATION

Twelve years after the reform of the IASC and the establishment of the IFRS Foundation and the IASB, the profiles provide firm evidence that the vision of global accounting standards is now becoming a reality:

Of the 122 jurisdictions whose profiles have been posted:

- ***101 jurisdictions require IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions).***
- ***10 other jurisdictions permit IFRS for those companies.***
- ***2 require IFRS only for financial institutions.***
- ***2 others are in process of adopting IFRS in full.***
- ***7 use national standards*.***

*Those 7 are Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, United States. China's standards, while not IFRS, are substantially converged with IFRS.

What Have We Learned So Far – Details from 122 jurisdiction profiles?

OBSERVATION #1 – Support for global accounting standards

Nearly all jurisdictions have publicly stated a commitment in support of global accounting standards

- Yes = 115 of the 122 jurisdictions
- No = 7 (Albania, Bermuda, Cayman Islands, Egypt, Macao, Paraguay Switzerland)

OBSERVATION #2 – IFRS as the global accounting standards

Nearly all jurisdictions have publicly stated that IFRS should be the global accounting standards

- Yes = 117 of the 122 jurisdictions
- No = 5 (Bermuda*, Cayman Islands*, Egypt, Macao, Switzerland*)

  *Although Switzerland has not made a formal public statement that IFRS should be the global accounting standards, the Swiss Government accepts IFRS as issued by the IASB (in addition to the IFRS for SMEs, US GAAP, IPSASs, and Swiss

GAAP FER) as an acknowledged accounting framework in accordance with the Swiss Code of Obligations. And 84% of the companies on the main board of the Swiss stock exchange use IFRS. Similarly, although Bermuda and Cayman Islands have not made a formal public statement that IFRS should be the global accounting standards, IFRS are permitted and frequently used.

OBSERVATION #3 – IFRS required for domestic listed companies

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

- Yes = 101 of 122 jurisdictions (83%)
- Not yet = 21 jurisdictions

OBSERVATION #4 – IFRS required for more than just listed companies

Around 60% of the 101 that require IFRS for domestic listed companies also require IFRS for unlisted financial institutions and/or large unlisted companies.

OBSERVATION #5 – IFRS permitted for unlisted companies

Around 90% of the 101 that require IFRS for listed companies also require or permit IFRS for many unlisted companies.

OBSERVATION #6 – IFRS permitted for listed companies

Most of the remaining 21 jurisdictions that do not yet <u>require</u> IFRS for all or most domestic listed companies already <u>permit</u> IFRS for at least some domestic listed companies.

Here is a rundown of the 21 jurisdictions that do not yet require IFRS for all or most domestic listed companies:

Bermuda:

- Bermuda has not adopted any particular financial reporting framework as its national accounting standards. IFRS is permitted.

Bhutan:

- IFRS being phased in. 18 IFRSs already adopted. Full adoption by 2021.

Bolivia:

- Yet to adopt, but IFRS is used by some companies.

Cayman Islands:

- Cayman Islands has not adopted any particular financial reporting framework as its national accounting standards. IFRS is permitted.

China:

- National standards are substantially converged with IFRS.
- Some Chinese companies use IFRS when they list in Hong Kong.

Egypt:

- In 2006 Egypt adopted 35 national accounting standards that were developed taking into consideration the IASs and IFRSs that existed in 2005.
- The government is considering adoption of the IFRS for SMEs.

Guatemala:

- IFRS is permitted.

Guinea-Bissau:

- As a member of the West African Economic and Monetary Union, Guinea-Bissau follows the West African Accounting Council (CCOA) standards. The CCOA has announced a plan to converge its standards toward IFRS starting in 2014.

India:

- IFRS is permitted on limited voluntary basis.
- 11 companies now use.

Indonesia:

- Has adopted some individual IFRSs.
- Developing a plan for full adoption.

Japan:

- IFRS permitted if criteria are met. 22 companies now use.
- Proposal to expand IFRS criteria to allow many more companies to adopt.
- By 2014 expect more than 20% of total market cap to use IFRS.

Macao:

- Has adopted some (very old) individual IFRSs.
- No plan for full adoption.

Madagascar:

- IFRS is permitted.

Niger:

- As a member of the West African Economic and Monetary Union, Niger follows the West African Accounting Council (CCOA) standards. The CCOA has announced a plan to converge its standards toward IFRS starting in 2014.

Pakistan:

- Has adopted many but not all IFRSs.

Paraguay:

- IFRS is permitted.
- The central bank has a plan to require IFRS for all financial institutions.

Saudi Arabia:

- IFRS now required for banks and insurance companies.
- Plan to adopt for all listed companies and financial institutions.

Singapore:

- Has adopted many but not all IFRSs as Singapore GAAP.
- Singapore companies may use IFRS with approval of the Accounting and Corporate Regulatory Authority of Singapore.

Thailand:

- Thailand has adopted national standards that are fully converged with 2009 IFRS except for the IFRSs on insurance, agriculture, and financial instruments.

United States:

- SEC Concept Release (2007), Roadmap (2008), Staff Report (2012)
- IFRS permitted for non-US companies. 450 SEC registrants now use IFRS.

Uzbekistan:

- IFRS is required for banks.
- IFRS has not been adopted for other companies, but it is under consideration by the Ministry of Finance.

OBSERVATION #7 – Modifications of IFRS

Modifications to IFRS are rare.

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

European Union: the much-publicised IAS 39 carve-out

- EC itself describes the carve-out as 'temporary'.
- It is used by fewer than two dozen out of 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 deferred dates of several standards, notably IFRSs 10, 11, 12. Most of those deferrals terminated on 1 January 2014.

Modifications or deferrals pending completion of IASB projects:

- Use of equity method in separate financial statements: Argentina, Brazil, Taiwan, Uruguay.
- Loan loss provisions of financial institutions: Chile, Serbia.
- Rate regulated activities: Canada has deferred mandatory adoption of IFRS by rate-regulated companies until 2015.

These are all active projects on the IASB's agenda.

Older version of IFRS adopted by law or regulation

- Several jurisdictions have not adopted the current versions of IFRS:
    - Macedonia has adopted the 2009 version of IFRS.
    - Myanmar has adopted the 2010 version.
    - Sri Lanka adopted the 2011 version.
    - Venezuela adopted the 2008 version.
- Bangladesh has adopted the 2010 version of IAS 39 but the current versions of other IFRS.

Other modifications of IFRS

- Pakistan has not adopted IFRS 1 *First-time Adoption of IFRS*, IFRIC 12 *Service Concession Arrangements*, IFRIC 15 *Agreements for the Construction of Real Estate*. For banks Pakistan has not adopted IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 40 *Investment Property*, IFRS 7 *Financial Instruments: Disclosures*.
- In Serbia, for banks, insurance companies, pension funds, and other financial institutions, the National Bank of Serbia requires certain accounting treatments that differ from IFRS, for example, in loan loss provisions for banks and in recognising and impairing premium receivables by insurance companies.
- Sri Lanka made some modifications to IAS 34 *Interim Financial Reporting* and IAS 40 *Investment Property* and IFRS 7 *Financial Instruments: Disclosures*. Sri Lanka has adopted IFRIC 15 *Agreements for the Construction of Real Estate* but the effective date is deferred. Also 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 have been adopted for banks, in applying IFRS banks use some prudential accounting requirements established by the Central Bank that are used different from the related IFRS requirements.

OBSERVATION #8 – Auditor's report wording

In a majority of jurisdictions, the auditor's report refers to compliance with IFRS.

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 (includes 31 EU/EEA members, the EU itself as a G20 member, and an EU candidate country). In the remaining 19 jurisdictions, the auditor's report refers to national standards (in some of those cases, such as Bangladesh, Hong Kong, and Malaysia, the national standards are nearly identical to IFRS).

IFRS as issued by the IASB	70 jurisdictions
IFRS as adopted by the EU. Many of these also assert compliance with IFRS (dual reporting).	33 jurisdictions
National standards	19 jurisdictions

OBSERVATION #9 – Endorsement process

Apart from the 33 member countries of the European Union and European Economic Area and EU candidate countries, most (78%) of the remaining 89 jurisdictions that require or permit IFRS for domestic companies do not go through endorsement of individual new or amended IFRSs.

The EU/EEA has an endorsement process that involves endorsement advice and an effects study from the European Financial Reporting Advisory Group (EFRAG); a favourable vote of the Accounting Regulatory Committee (ARC); favourable opinions of the European Parliament and the Council of the European Union; and publication in the Official Journal of the European Union.

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

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

OBSERVATION #10 – IFRS for SMEs

57 ***of the 122 jurisdictions require or permit the IFRS for SMEs. Another 16 are actively considering it.***

Of the 57 that require or permit the IFRS for SMEs:

- 7 require it for all SMEs that are not required to use full IFRS.
- 34 give SMEs an option to use full IFRS instead.
- 15 give SMEs an option to use either full IFRS or local GAAP instead of the IFRS for SMEs.
- 1 jurisdiction requires local GAAP if an SME does not choose the IFRS for SMEs.

Several of the 57 jurisdictions have made modifications in adopting the IFRS for SMEs.

Follow-up Survey in Early 2014

We plan to do a follow-up survey in early 2014 with the following three objectives:

- Objective #1: Reaffirm initial data or whether any changes are needed
- Objective #2: Fix one or two unclear matters on original survey.

  Example: In EU when we asked about "dual reporting" did we mean dually asserting (a) compliance with both IFRS and IFRS as adopted by EU or (b) compliance with both IFRS and national GAAP?
- Objective #3: Obtain additional information about IFRS adoption. Examples of such additional information might include:

- What is the actual practice in the jurisdiction regarding dual reporting? Common? Rare?
- Does the jurisdiction prohibit early adoption of a new or amended IFRS even if early adoption is permitted in IFRS?
- Has the effective date of a new or amended IFRS in the jurisdiction always been the same as the effective date in the IFRS?
- If use of IFRS for SMEs is optional, what proportion of SMEs chooses IFRS for SMEs? Most? Many? Some? Few?
- Has the jurisdiction added any accounting standards or disclosures that are mandatory for the fair presentation of financial statements described as conforming to IFRS? If yes, what are the topics of those additional standards or disclosures?
- Does the jurisdiction require IFRS financial statements to be published using XBRL?