

## The extension of the scope of IFRS

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**1 January 2015 marks the tenth anniversary of the application of IFRS in Europe. This is a good time to carry out a review—which countries are making these standards obligatory, authorised or prohibited? The IFRS Foundation has published a wide-ranging study and Philippe Danjou, a Member of the IASB, summarises the results for us.**

### **126 jurisdictions have now pronounced in favour of IFRS**

The IFRS Foundation has been able to analyse 138 jurisdictions, out of the 197 that are recognised by the UN. In practically all of them, the relevant authority has taken a position in favour of IFRS as the sole global accounting standard for financial information. Hence, 126 jurisdictions have made a positive pronouncement, including all the countries represented at the G20. They represent 96 per cent of global GDP. In eight jurisdictions however, the relevant authority has not made a public announcement (Belize, Bermuda, Cayman Islands, Egypt, Macau, Surinam, Switzerland and Vietnam). But even in the major jurisdictions which have not yet adopted them, IFRS are widely used—we will return to this issue.

### **114 jurisdictions have adopted IFRS**

In addition to the declarations of intent, 114 jurisdictions (82 per cent) make IFRS compulsory for all or most of their publicly accountable companies. Among these jurisdictions, we do however note a degree of diversity. First of all, in the timing—for two jurisdictions, the decision has been taken but is not yet effective (Colombia and Bhutan will switch to IFRS in 2015 and 2021 respectively). Next, some jurisdictions apply IFRS, but have adopted previous versions of the standards (Macedonia (2009), Myanmar (2010), Sri Lanka (2011) and Venezuela (2008)). According to the available information, these jurisdictions are working on getting up to date. Lastly, some, although very few, jurisdictions have made temporary modifications to certain provisions of IFRS standards. The most notable is the famous European ‘*carve-out*’, which involved slightly modifying IAS 39 at the time of its adoption in Europe, in order to delete certain paragraphs relating to hedge accounting.

The application of the carve-out only concerns around 20 banks, out of the 8000 publicly traded European entities that apply IFRS. Other temporary modifications made by some jurisdictions consisted of deferring the application dates of some Standards. Hence, Europe deferred the entry into obligatory effect of IFRSs 10, 11 and 12 until 2014. Among the 114 jurisdictions that apply IFRS, some have issued national standards that are identical to IFRS, word for word. The most notable are Australia, Hong Kong and New Zealand. In these jurisdictions, IFRS therefore applies to all companies, publicly traded or not, for both their consolidated and their individual financial statements.

### **Twelve jurisdictions do not make IFRS obligatory, but authorise their use**

They are the following: Bermuda, Cayman Islands, Guatemala, Honduras, India, Japan, Madagascar, Nicaragua, Panama, Paraguay, Surinam and Switzerland. IFRS is not obligatory in Switzerland, but is authorised and is widely used. Hence, in the international market segment, in other words the companies whose securities are likely to be acquired by foreign investors, 84 per cent of the companies apply IFRS, compared with 16 per cent that apply US GAAP. One notable exception is the SWATCH Group, which was authorised to remain listed in that segment, even though it had abandoned IFRS in favour of Swiss GAAP... to the great displeasure of many Swiss investors. The

same does not apply to smaller companies that are not looking for international investors—in this domestic area, the use of national standards is most common (65 per cent), while IFRS is used only by a minority (7 per cent). US GAAP is not used at all and 28 per cent apply banking law. Foreign companies that are publicly traded in Switzerland may also apply IFRS.

Similarly, in Japan, IFRS has been authorised since 2010, subject to certain conditions. In October 2013, the regulator relaxed the conditions for voluntary adoption of IFRS, which resulted in an increase from 600 eligible companies to more than 4000, accounting for almost all the publicly traded companies. Hence, in February 2014, 34 companies had made the decision to use IFRS. This number is now currently estimated as having risen to approximately 60 and represents a significant percentage of the total market capitalisation. (The most recent adopters are Hitachi and Toshiba, which announced their forthcoming move to IFRS last January). Furthermore, foreign companies publicly traded in Japan are also authorised to apply IFRS.

At present, India permits the application of IFRS, but only 11 companies have made that decision so far. These are essentially companies whose securities are also publicly traded in another country. For other companies, the national standards began their convergence with IFRS in 2007. 35 standards have already been published and correspond to IFRS that are in effect on 1 April 2011. Their official adoption is expected in the near future. It should be noted that this list excludes some areas that are considered to be 'sensitive'. In particular, this applies to financial instruments (IFRS 9), agriculture (IAS 41) and service concession arrangements (IFRIC 12). In the near future, we are also expecting the publication of the roadmap for subsequent convergence.

#### **Four specific cases**

Two jurisdictions impose IFRS only on banks (Saudi Arabia and Uzbekistan). Thailand is in the process of adopting IFRS and Indonesia is in the process of convergence.

#### **Eight jurisdictions apply their national rules**

(Bolivia, China, Egypt, Guinea-Bissau, Macau, Niger, United States and Vietnam). The two largest economies on the planet, China and the United States, have made a commitment in favour of IFRS, as have all the countries in the G20, but have not (yet?) put it into effect. This is the reason why, although the jurisdictions which have made a commitment in favour of IFRS represent 96 per cent of global GDP, the score falls to 58 per cent when the jurisdictions that actually apply them are taken into consideration. However, there is no suggestion that IFRS is not applied there at all.

In the United States, IFRS is present in two ways. Firstly, there are approximately 500 publicly traded companies that apply IFRS. These are the *Foreign Private Issuers*, the non-US companies that raise capital<sup>1</sup> in the USA (some of which are among the largest corporations in the world: Daimler, Nestlé, Total, Sanofi, etc). One of the main benefits for these companies of the switch to IFRS has been the end of the obligation to prepare and publish a reconciliation between the financial statements published in their country of origin and the amounts that would have been reported under US GAAP. Since 2008, if the financial statements are prepared using IFRS (without restriction), they are admissible in the United States without any accounting reconciliation. The reconciliation was a source of cost and complexity for these large corporations.

Next, the US standards are converging with IFRS standards. From a European perspective, there is a tendency to only see the efforts made by IASB to achieve convergence with US GAAP, but US GAAP is also converging with IFRS. For example, in May 2014, IFRS 15 *Revenue from Contracts with Customers* appeared at the same time as the new US standard on revenue recognition. These two standards are completely identical. Work is continuing on the subject of leasing contracts and on other subjects, even though there is no guarantee that the finished standards will be completely

identical. Although the USA has not made a decision to switch to IFRS, work on convergence has continued and the differences between the two bodies of standards are being reduced. Lastly, it should not be forgotten that US investors are major buyers of securities in companies that use IFRS and are therefore major users of IFRS.

In China, the application of IFRS is more ambiguous. Indeed, IFRS is not authorised for companies that are publicly traded in China and foreign companies cannot raise capital there. But the leading market for the trading of Chinese companies remains Hong Kong, where IFRS is authorised. Hence, the largest Chinese companies traded in Hong Kong have made the decision to apply IFRS. Furthermore, some of these companies already applied the Hong Kong standards, which are now exactly the same as IFRS. As a result, the great majority of Chinese companies publicly traded in Hong Kong (84 per cent by volume and 95 per cent by capitalisation) are now using IFRS. IFRS is indeed a significant accounting standard for China.

In addition, China has also committed itself to a process of convergence of its accounting standards with IFRS. In 2006, China adopted a 'package' of 'substantially converged' accounting standards and, in 2010, adopted a roadmap for the continuation of convergence. While it is impossible to list here the differences between IFRS and Chinese standards, it is interesting to take note of a few of them—the revaluation of fixed assets is not authorised, the reversal of an *impairment* charge is not authorised, the *full goodwill* method is not authorised (in any case, in IFRS, revaluation of fixed assets and the *full goodwill* method are only accounting options) and the restatement of financial assets at fair value by profit and loss is not authorised. These examples demonstrate that the differences are limited. Furthermore, for a business that is not concerned with those topics, or that chooses not to use the prohibited IFRS options, the Chinese and IFRS standards are de facto similar.

This study is full of useful lessons. The most important is the highlighting of the now pre-eminent role of IFRS throughout the world. Not only have the great majority of jurisdictions made commitments in favour of IFRS, but those that apply them represent more than half of the world's wealth, despite the obvious absence of China and the United States. Nevertheless, even in these jurisdictions, IFRS plays a major role.

The other lesson is that while the European Union played a decisive role in the adoption of IFRS and remains a major 'customer', it is no longer the majority customer—in fact, it represents \$17 billion of aggregated GDP out of a total of \$40 billion for the jurisdictions that now use IFRS... and the dynamics of economic growth will only reduce this share.

Finally, IFRS is the accounting standard for more than 52 per cent of the largest companies in the world, according to the Fortune 500 listing. US GAAP is the second largest accounting standard in the world, with 29 per cent of those companies using it.

1. Or which have a financial reporting obligation as a result of their employee shareholding programmes.
2. The Hong Kong standards are now identical, word for word, with IFRS standards. However, because the transitional arrangements were different, transactions prior to 2005 may have been treated differently.

The complete study is available on the following web page: <http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx>

The original article appeared in French and is available [here](#).