Use of International Financial Reporting Standards Around the World
Why Global GAAP for Listed Companies

• Historically accounting standards evolved country by country.
  – Set by government, or accounting profession, or independent board.
• National standards made sense when companies raised money in, and investors sought investment opportunities in, only their home country.
• Big change 1975-2010:
  – Globalisation of capital markets.

Why Global GAAP for Listed Companies

• Now, investors seek investment opportunities all over the world.
• Companies seek capital at the lowest price anywhere.
• Cross-border mergers.

Accounting differences reduce understandability and obscure comparisons that investors want to make.
Enhancing Shareholder Value

• High quality global financial reporting standards – carefully applied – benefit investors, lenders, other capital providers:
  – Information is understandable
    – Domestically and across borders
  – Comparability is enhanced
  – Capital providers have confidence

Enhancing Shareholder Value

• High quality global standards also benefit companies that seek capital:
  – Reduce compliance costs
  – Remove uncertainties that affect their cost of capital
• Improve consistency in audit quality
• Facilitate education and training
### Use of IFRSs Around the World Today

#### For domestic listed companies:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Number of Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRSs required for all</td>
<td>91</td>
</tr>
<tr>
<td>IFRSs required for some</td>
<td>6</td>
</tr>
<tr>
<td>IFRSs permitted</td>
<td>26</td>
</tr>
</tbody>
</table>

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

#### For domestic unlisted (private) companies:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Number of Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRSs required for all</td>
<td>24</td>
</tr>
<tr>
<td>IFRSs required for some</td>
<td>28</td>
</tr>
<tr>
<td>IFRSs permitted</td>
<td>44</td>
</tr>
</tbody>
</table>

Today, IFRSs are used by unlisted companies in 96 jurisdictions.

Copyright © 2011 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org
What About the United States?

- SEC authority to set accounting standards for public companies
  - Delegated to private sector: AICPA 1937-1972, then FASB since 1973
- Since 2008, the 1,200 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 ‘Roadmap’ – decide in 2011?

Fortune Global 500 (July 2010)

<table>
<thead>
<tr>
<th>Which GAAP?</th>
<th>2010</th>
<th>2013</th>
<th>If Japan 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS and word-for-word equivalents</td>
<td>39%</td>
<td>46%</td>
<td>60%</td>
</tr>
<tr>
<td>US GAAP</td>
<td>31%</td>
<td>31%</td>
<td>28%</td>
</tr>
<tr>
<td>National GAAP</td>
<td>30%</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>Totals</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Based on announced plans

Copyright © 2011 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org
### Fortune Global 500 (July 2010)

#### Increases from 2010 to 2013 (listed companies):

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>No. G500 co’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2010</td>
<td>7</td>
</tr>
<tr>
<td>Canada</td>
<td>2011</td>
<td>11</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2012</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>2012</td>
<td>2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2012 (nearly IFRS now)</td>
<td>2</td>
</tr>
<tr>
<td>S. Korea</td>
<td>2011</td>
<td>10</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2013</td>
<td>8</td>
</tr>
</tbody>
</table>

### Fortune Global 500 (July 2010)

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Comments</th>
<th>No. G500 co’s.</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Has adopted main IFRS principles</td>
<td>46</td>
</tr>
<tr>
<td>India</td>
<td>Some differences with IFRSs expected</td>
<td>8</td>
</tr>
<tr>
<td>Japan</td>
<td>Seriously considering 2015 or 2016</td>
<td>71 (54 J-GAAP &amp; 17 US GAAP)</td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>USA</td>
<td>SEC Roadmap</td>
<td>139</td>
</tr>
</tbody>
</table>
The International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)

The IFRS for SMEs

Good Financial Reporting Made Simple.

• 230 pages (full IFRSs are 3,000+)
• Simplified IFRSs – built on an IFRS foundation
• Completely stand-alone
• Why? 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
Who Is Eligible to Use It?

Any entity that does not have public accountability...
- securities not publicly traded
- not a financial institution

... and is required or chooses to produce General Purpose Financial Statements (GPFS)

Who Is the Standard Aimed At?

Millions of companies (over 99%)!
- The 52 largest stock exchanges in the world together have about 45,000 listed companies
- Europe has roughly 28 million private sector enterprises (SMEs)
- USA has about 20 million
- UK: 4.7 million (99.6% under 100 employees)
- Hong Kong: 870,000
- Brazil: 6 million  Malaysia: 1.8 million
The Public Interest

Which entities must produce GPFS is a public interest issue
– Decided by parliaments and regulators, not by IASB (or by FASB in USA)
– Why? There is a public benefit in good financial information about companies

The USA is very different from most of the rest of the world in this regard…

The US Is Different from Most Others!

…In most countries all or many SMEs are required by law to prepare GPFS
– Europe: 8 million companies have a ‘statutory audit’ obligation
– Hong Kong – Every company including micros (700,000): GPFS + Audit
– Etc etc for nearly all countries, but…

In US, only SEC registrants and a limited number of others must prepare GPFS
The US Is Different from Most Others!

Still, in USA hundreds of thousands of private companies prepare financial statements

– FASB GAAP? Increasing burden & cost
– OCBOA? “Anything goes, just disclose”
– Cash or tax basis? Useful?
– Considerable interest in IFRS for SMEs

AICPA Code of Ethics now permits “fairly presents” audits of IFRS and IFRS for SMEs

The US Is Different from Most Others!

AICPA-FASB PCFRC

– US should have its own standard and standard-setter

Blue Ribbon Panel (AICPA, FASB, NASBA)

– US should develop its own standard

AICPA

– US should have its own standard and standard-setter

What happened to goal of convergence?
How Did We Simplify?

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting

Disclosure Simplifications

Big reduction in disclosures:

- Full IFRSs – more than 3,000 items in the disclosure checklist
- IFRS for SMEs – roughly 300 disclosures
Why Would an SME Want to Adopt It?

- **Improved access to capital**
  - This is the #1 issue with SMEs
- **Improved comparability**
- **Improved quality of reporting** as compared to existing national GAAP
  - World Bank ROSC reports – 85 countries
- **Reduced burden** for entities in jurisdictions where full IFRSs or full national GAAP are now required

Why Would an SME Want to Adopt It?

- **Other benefits:**
  - Lots of implementation help from the IASB
    - Examples later
  - Stability: Update only once every three years (if needed)
  - Textbooks available
  - Software available
  - Commercial training programmes
Jurisdiction Plans for Adoption

Today (January 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

Plans for Adoption: Some Examples

- **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
Plans for Adoption: Some Examples

- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka
- **Middle East:** Israel, 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

Implementation Support from IASB

**Translations**

- **Completed:** Arabic, Armenian, Chinese, Czech, French, Italian, Portuguese, Romanian, Spanish
- **In process:** Japanese, Khmer, Lithuanian, Serbian, Turkish
- **Proposed or in discussion:** Bulgarian, Kazakh, Macedonian, Mongolian, Polish, Russian, Ukrainian,

- **Monthly IFRS for SMEs Update Newsletter**
- **Free.** Prepared by IASB staff.
Implementation Support from IASB

Free training materials
• One module per Section

Free training workshops
• Regional, 3 days
• To date in Malaysia, India, Tanzania, Egypt, Brazil, Panama, Nordic countries, Caribbean

SME Implementation Group
• Publish implementation Q&As
• Recommend to IASB where modification of IFRS for SMEs is needed

Free Downloads from IASB

IFRS for SMEs (full standard, translations):
   http://go.ifrs.org/IFRSforSMEs

Training materials (35 modules):
   http://go.ifrs.org/smetraining

PowerPoint training modules (20 PPTs):
   http://go.ifrs.org/trainingppts

Board and staff presentations:
   http://go.ifrs.org/presentations

Update newsletter:
   http://go.ifrs.org/smeupdate

Implementation Group Q&As:
   http://go.ifrs.org/smeig
In Conclusion

The IFRS for SMEs will result in:
- Better quality reporting
- Tailored for the capabilities of small companies
- Tailored for the needs of lenders and creditors
- Understandability across borders

If capital providers understand and have confidence in the financial figures, an SME’s ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.

Questions or comments?

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.