

## Why the World Needs a Separate Standard for Private Companies, and Why the US Does Too

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29 January 2011  
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## Use of International Financial Reporting Standards Around the World



## Why Global GAAP for Listed Companies

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- **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.

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## Why Global GAAP for Listed Companies

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- **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.**

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## Enhancing Shareholder Value

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- **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

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## Enhancing Shareholder Value

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- **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**

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## Use of IFRSs Around the World Today

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For domestic <u>listed</u> companies:	Number of Jurisdictions
<b>IFRSs required for all</b>	<b>91</b>
<b>IFRSs required for some</b>	<b>6</b>
<b>IFRSs permitted</b>	<b>26</b>

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



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## Use of IFRSs Around the World Today

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For domestic <u>unlisted</u> (private) companies:	Number of Jurisdictions
<b>IFRSs required for all</b>	<b>24</b>
<b>IFRSs required for some</b>	<b>28</b>
<b>IFRSs permitted</b>	<b>44</b>

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



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## What About the United States?

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- **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)

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

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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	Has adopted main IFRS principles	46
India	Some differences with IFRSs expected	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

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## 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?

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**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)**

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## Who Is the Standard Aimed At?

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**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**

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## The Public Interest

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### **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...**

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## The US Is Different from Most Others!

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### **...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**

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## The US Is Different from Most Others!

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### 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

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## The US Is Different from Most Others!

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### 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?

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## How Did We Simplify?

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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

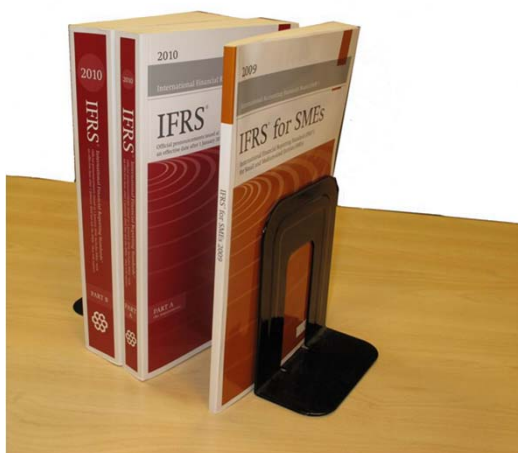
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## Disclosure Simplifications

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### Big reduction in disclosures:



- Full IFRSs – more than **3,000** items in the disclosure checklist
- IFRS for SMEs – roughly **300** disclosures

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## Why Would an SME Want to Adopt It?

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- **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

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## Why Would an SME Want to Adopt It?

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- **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

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## Jurisdiction Plans for Adoption

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**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

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## Plans for Adoption: 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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## Plans for Adoption: Some Examples

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- **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

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## Implementation Support from IASB

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### 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.

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## Implementation Support from IASB

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### 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

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## Free Downloads from IASB

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### 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>

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## In Conclusion

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### **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.**

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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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