IASB history

1973-2000:

- International Accounting Standards Committee (IASC)
- Set up in 1973 by 9 countries because of globalisation of capital markets
  - Written commitment to use their best efforts to adopt IAS
- IASC issued IASs 1 to 41
- By 2000 – despite the written commitment – only some voluntary adoptions by listed companies, very few unlisted companies
IASB history

Since 2001:
- IASC reorganised into International Accounting Standards Board (IASB)
- IFRSs 1-13 and improved IASs 1-41
- Adoptions for listed companies by well over 100 countries
- Europe was the catalyst – adopted IFRS for listed companies starting 2005
- Dozens of other countries followed
The mission of the IASB

From IFRS Foundation Constitution adopted in early 2000:

“To develop, in the public interest, **a single set of high quality, understandable and enforceable global accounting standards** that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions.”

**Same mission today.**

Support for global accounting standards

**Public support for global accounting standards:**

- G20
- World Bank
- IMF
- Basel Committee
- International Organization of Securities Commissions (IOSCO)
- International Federation of Accountants (IFAC)
- European Parliament and Council
- Many others

**As far back as 1973, when old IASC was created**
Why adopt global accounting standards?

World’s financial markets are borderless

- To assess the risks and returns of their various investment opportunities, investors and lenders need financial information that is relevant, reliable and comparable across borders.

Amounts of cross-border investment are huge:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global foreign direct investment 2013</td>
<td>$1.5 trillion</td>
</tr>
<tr>
<td>US stocks &amp; bonds held overseas 2012</td>
<td>$14 trillion</td>
</tr>
<tr>
<td>Foreign stocks &amp; bonds held by US investors 2013</td>
<td>$8 trillion</td>
</tr>
</tbody>
</table>

Why adopt global accounting standards?

A comprehensive review of nearly 100 academic studies of the benefits of IFRS found:

Most of the studies ‘provide evidence that IFRS has improved efficiency of capital market operations and promoted cross-border investment’*

Support for global accounting standards

**February 2012 strategy review report of the Trustees of the IFRS Foundation**

“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.”

Different pathways towards adoption

- Adoption of IFRS is a voluntary public-interest decision by the legislative and regulatory authorities in individual jurisdictions.
- Countries must establish their own mechanisms for bringing IFRS formally into national law and for ensuring consistent and rigorous application.
- Regardless of the mechanics of IFRS adoption, the end result should be the same—full adoption of IFRS as issued by the IASB.
Support for global accounting standards

February 2012 strategy review report, continued

“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. ... Whatever the [adoption] mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRS as issued by the IASB.”

Where are countries on the road to IFRS?

Goals of the project:

1. Develop a central source of information to chart jurisdictional progress toward global adoption of a single set of financial reporting standards
2. Respond to assertions that there many national variations of IFRS around the world
3. Identify where IFRS Foundation can help countries on their path to adoption of IFRS
Goal #1: Chart progress to global standards

Develop IFRS profiles for each jurisdiction
- Starting point was a survey of standard setters
- Profiles prepared by IFRS Foundation
- Reviewed by survey respondent, regulators, and international audit firms
- Profiles reflect current status of use of IFRS rather than hopes and intentions

Profiles already completed

130 jurisdiction profiles are now posted:
http://go.ifrs.org/global-standards or

Go to IASB website. Click on "Who uses IFRS?"
The 130 profiled jurisdictions come from all over the world:

<table>
<thead>
<tr>
<th>Region</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>19 jurisdictions</td>
</tr>
<tr>
<td>Americas including Caribbean</td>
<td>34 jurisdictions</td>
</tr>
<tr>
<td>Asia-Oceania</td>
<td>28 jurisdictions</td>
</tr>
<tr>
<td>Europe</td>
<td>42 jurisdictions</td>
</tr>
<tr>
<td>Middle East</td>
<td>7 jurisdictions</td>
</tr>
</tbody>
</table>

The 130 profiles cover 96% of global GDP.

Content of each profile

- Survey participant details
- 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
- Eliminate options? Make modifications?
- Process for translation of IFRS
- Adoption of the IFRS for SMEs
Most profiles are 4 to 6 pages long, A4 size.

Commitment to IFRS as global standards

Made a public statement committing to IFRS as the global accounting standards?

- Yes = 122 of the 130 jurisdictions
- No = 8 (Albania*, Bermuda*, Cayman Islands*, Egypt, Macao, Paraguay, Suriname*, Switzerland*)

*IFRS permitted and widely used. In Switzerland, 84% of companies on main board of Swiss Exchange now use IFRS.
IFRS already adopted

IFRS required for all or most public companies?
- Yes = 105 of 130 jurisdictions (81%)
- Not yet = 25 jurisdictions (see next slide)

Most of those 105 go beyond just public companies:
- 60% also require IFRS for all financial institutions and/or large unlisted companies.
- 90% also require or permit IFRS for many unlisted companies.

On the road to adoption of IFRS

IFRS are already used in most of the 25 jurisdictions that do not yet require IFRS for all or most public companies:
- 14 permit IFRS for all or most listed companies
- 2 require IFRS for all financial institutions (plus 1 of the above 14)
- 2 are in process of adopting IFRS
- 7 use national GAAP
Graphical overview of the Jurisdiction Profiles

Use of IFRS in 130 Surveyed Jurisdictions

- 2 jurisdictions
- 14 jurisdictions
- 9 jurisdictions
- 105 jurisdictions

- IFRS required for all or most companies
- IFRS permitted for all or most companies
- IFRS required for financial institutions only
- National standards (including in process of moving to IFRS)

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Capital Markets that run on IFRS data

- IFRS provide the financial information for capital markets covering 56% of the world’s GDP
- Non-EU/EEA jurisdictions are a large component of the IFRS users:

<table>
<thead>
<tr>
<th>Jurisdictions that require or permit IFRS for all or most public companies</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union and EEA</td>
<td>US$ 17.2 trillion</td>
</tr>
<tr>
<td>Jurisdictions other than EU and EEA</td>
<td>US$ 23.3 trillion</td>
</tr>
</tbody>
</table>
Goal #2: Assertions of many local ‘flavours’

 Modifications to IFRS are rare

- The few that have been made are temporary and of limited scope and applicability
  - See next slide
  - In most cases IASB is addressing the issue in a current project

What kinds of modifications are there:

- EU IAS 39 “carve-out” – used by only 20 of 8,000 listed companies in Europe, “temporary”
- Delayed effective dates of IFRS 10, 11, 12 until 2014
- Modifications or deferrals pending completion of IASB projects
  - Rate regulation, equity method, loan loss provisions
- Older versions of IFRS adopted, not latest
- A few other small changes
Auditor’s report

In the 130 jurisdictions, the independent auditor’s report refers to:

<table>
<thead>
<tr>
<th>Standard Type</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS as issued by the IASB</td>
<td>76 jurisdictions</td>
</tr>
<tr>
<td>IFRS as adopted by the EU</td>
<td>33 jurisdictions*</td>
</tr>
<tr>
<td>* Many of these also assert compliance with IFRS as issued by the IASB</td>
<td></td>
</tr>
<tr>
<td>National standards</td>
<td>21 jurisdictions</td>
</tr>
</tbody>
</table>

Endorsement process, if any

<table>
<thead>
<tr>
<th>Endorsement Process</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>No endorsement required</td>
<td>58 jurisdictions</td>
</tr>
<tr>
<td>European Union process</td>
<td>33 jurisdictions</td>
</tr>
<tr>
<td>Endorsement solely by professional accounting body</td>
<td>11 jurisdictions</td>
</tr>
<tr>
<td>Endorsement solely by government agency</td>
<td>12 jurisdictions</td>
</tr>
<tr>
<td>Involves both professional body and government</td>
<td>6 jurisdictions</td>
</tr>
<tr>
<td>IFRS not yet adopted for any domestic or foreign companies</td>
<td>10 jurisdictions</td>
</tr>
</tbody>
</table>
In the 130 jurisdictions for which we have posted profiles:

<table>
<thead>
<tr>
<th>Adoption Status</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already adopted the IFRS for SMEs</td>
<td>63</td>
</tr>
<tr>
<td>Actively considering it</td>
<td>16</td>
</tr>
</tbody>
</table>

Plus we are aware of at least 12 other adoptions that are not in the 130 profiled jurisdictions.

In the 63 jurisdictions that have already adopted the IFRS for SMEs:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All SMEs must use IFRS for SMEs (unless required to use full IFRS)</td>
<td>8</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs or local GAAP</td>
<td>1</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs or full IFRS</td>
<td>38</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs, full IFRS, or local GAAP</td>
<td>16</td>
</tr>
</tbody>
</table>
The challenge of consistent application

Good standards by themselves will not ensure global comparability

Comparability requires that IFRS must be:
- Applied consistently across borders
- Audited consistently across borders
- Enforced consistently across borders

Regulators and auditors must take the lead in tackling the challenges of rigorous and consistent enforcement

The main responsibility of IASB in this respect: develop standards that are enforceable.

To be enforceable, IFRS must be:
- Clear and unambiguous
- Translatable into various languages
A comment on the use of IFRS in the US

The United States is one of the few countries that does not permit domestic public companies to use IFRS. However, the US is already a big user of IFRS:

- Nearly 500 large foreign companies whose securities trade in the US use IFRS
- Thousands of foreign subsidiaries, associates, and joint ventures owned by US companies use IFRS

Continued…

A comment on the use of IFRS in the US

- Thousands of US companies are subsidiaries, associates, or joint ventures of foreign investors, and they are required to prepare IFRS data for inclusion in the investor’s financial statements
- US financial analysts compare US companies with non-US companies that use IFRS
- US banks and businesses extend credit to companies whose financial statements are prepared using IFRS
An article explaining the Foundation’s profiles project and the information in the Trustees’ agenda paper was published in the January 2014 issue of The CPA Journal (United States), print and online: http://www.cpajournal.com/

Title: ‘Global Accounting Standards—From Vision to Reality’

Available on IASB’s website: www.ifrs.org

Guide to IFRS as global standards

This 196-page guide summarises:

- what IFRS is
- benefits of adoption
- history of development of IFRS
- how IFRS is developed
- for 130 jurisdictions, information about which accounting standards are required (public companies and SMEs) and how IFRS is endorsed
- links to resources
- requirements of current Standards
Guide – sample country pages

Botswana

Accounting standards required for publicly accountable entities (public companies and financial institutions)

Local companies and financial institutions: Bills No. 16 and No. 23 in their Elisabetharessen. In addition, the Botswana Development Bank Act requires these other companies under the IFRS to be disclosed separately in the financial statements.

Supporting financial instruments

Warning: Deposits in both local and foreign currency may be subject to special requirements.

Brazil

Accounting standards required for publicly accountable entities (public companies and financial institutions)

Local companies and financial institutions: Bills No. 16 and No. 23 in their Elisabetharessen. In addition, the Brazilian Development Bank Act requires these other companies under the IFRS to be disclosed separately in the financial statements.

Supporting financial instruments

Warning: Deposits in both local and foreign currency may be subject to special requirements.

Guide – sample IFRS summary pages

Overview of IFRS continued...

A joint venture program to be issued in the next two years under the IFRS framework will be issued by the IFRS framework, which provides a comprehensive and user-oriented approach to the implementation of the IFRS framework.

Conclusion (Overview of IFRS continued...)

The IFRS framework provides a comprehensive and user-oriented approach to the implementation of the IFRS framework. It is designed to be a flexible and adaptable framework that can be applied to a wide range of financial reporting situations. The framework is based on the principle that the information provided by financial statements should be useful to investors, creditors, and other users in making decisions about economic resources. The framework consists of a set of principles and concepts that guide the preparation of financial statements. It includes requirements for the measurement and disclosure of assets, liabilities, equity, revenue, and expenses. The framework also includes requirements for the presentation and disclosure of financial information in financial statements. The framework is intended to provide a common language for financial reporting and to promote transparency and comparability of financial information. The framework is designed to be applied in a consistent and logical manner, and it is intended to be a dynamic and evolving framework that will be updated as new developments occur in financial reporting.
Guide: Paul Volcker’s introductory note

‘If we really believe in open international markets and the benefits of global finance, then it can’t make sense to have different accounting rules and practices for companies and investors operating across national borders. That is why we need global standards. Ultimately this will get done.’

Paul A Volcker
Chairman of the US Federal Reserve (1979-1987);
Chairman of the IFRS Foundation Trustees (2000-2005)

Concluding comment

Today, more than 100 countries require the use of IFRS, while most other jurisdictions permit IFRS in at least some circumstances. We are not yet to the point at which IFRS adoption is total and complete, but it is an impressive achievement in such a short period of time.

IFRS has become the de facto global standard for financial reporting. Its quality has been validated by almost a decade of use by markets in both advanced and developing economies.
Questions or comments?

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.