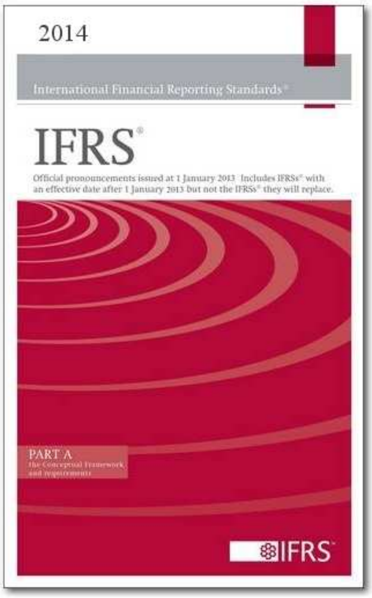

International Financial Reporting Standards

Global Standards: How Close Are We?

Paul Pacter
Former Board Member, IASB
2014 MIT Asia Conference
14 July 2014

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

IFRS

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

IFRS

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

IASB structure

The mission of the IASB

5

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.

IFRS

Support for global accounting standards

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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

IFRS

Why adopt global accounting standards?

7

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:

Global foreign direct investment 2013	$1.5 trillion
US stocks & bonds held overseas 2012	$14 trillion
Foreign stocks & bonds held by US investors 2013	$8 trillion

IFRS®

Why adopt global accounting standards?

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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'*

*Ann Tarca. *The Case for Global Accounting Standards: Arguments and Evidence*. 2012. Includes references for all cited studies.

http://www.ifrs.org/Use-around-the-world/Documents/Case-for-Global-Accounting-Standards-Arguments-and-Evidence.pdf

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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."

IFRS

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.

IFRS

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

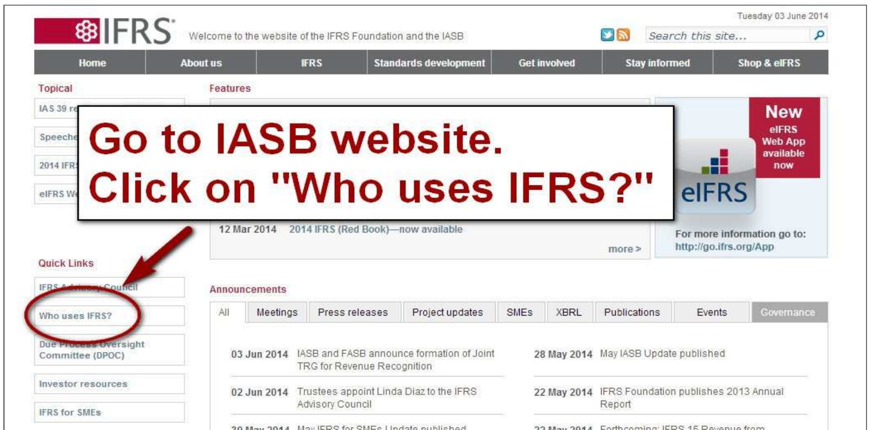
Develop IFRS profiles for each jurisdiction

- 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



Profiles already completed

15

The 130 profiled jurisdictions come from all over the world:

Africa	19 jurisdictions
Americas including Caribbean	34 jurisdictions
Asia-Oceania	28 jurisdictions
Europe	42 jurisdictions
Middle East	7 jurisdictions

The 130 profiles cover 96% of global GDP.

IFRS

Content of each profile

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- **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**

IFRS

Example p.1

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Most profiles are 4 to 6 pages long, A4 size

IFRS

IFRS APPLICATION AROUND THE WORLD

JURISDICTIONAL PROFILE: **Mexico**

Disclaimer: The information in this Profile is for general guidance only and may change from time to time. You should not act on the information in this Profile, and you should obtain specific professional advice to help you in making any decisions or in taking any action. If you believe that the information has changed or is incorrect, please contact us at ifrsapplication@ifrs.org.

This Profile has been prepared by the IFRS Foundation based on information from various sources. The starting point was the answers provided by standard-setting and other relevant bodies in response to a survey that the Foundation conducted on the application of IFRSs around the world between August and December 2012. The Foundation drafted the profile and invited the respondents to the survey and others (including regulators and international audit firms) to review the drafts, and their comments are reflected.

Profile last updated	5 June 2013
PARTICIPANT IN THE IFRS FOUNDATION SURVEY ON APPLICATION OF IFRSs	
Organisation	Consejo Mexicano de Normas de Información Financiera, A.C. (CINIF) [The Mexican Financial Reporting Standards Board]
Role of the organisation	CINIF is the official standard-setting body in Mexico.
Website	http://www.cinif.org.mx/
Email contact	fperezcervantes@cinif.org.mx
COMMITMENT TO GLOBAL FINANCIAL REPORTING STANDARDS	
Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards?	Yes.
Has the jurisdiction made a public commitment towards IFRSs as that single set of high quality global accounting standards?	Yes.
What is the jurisdiction's status of adoption?	Mexico has adopted IFRSs for all listed companies other than financial institutions and insurance companies.
Additional comments provided on the adoption status?	IFRSs were adopted by the Comisión Nacional Bancaria y de Valores (CNBV) [the National Banking and Securities Commission of Mexico] for listed companies other than financial institutions and insurance companies effective for annual reporting periods beginning on or after 1 January 2012. Early application was allowed since 2008. This applies both to entities that prepare consolidated financial statements and to entities that are not required to prepare consolidated financial statements because they do not have subsidiaries. Companies belonging to the financial and insurance sectors use Mexican Financial Reporting Standards (MFRS) plus certain requirements established by

IFRS

Commitment to IFRS as global standards

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Made a <u>public statement</u> 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

IFRS already adopted

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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

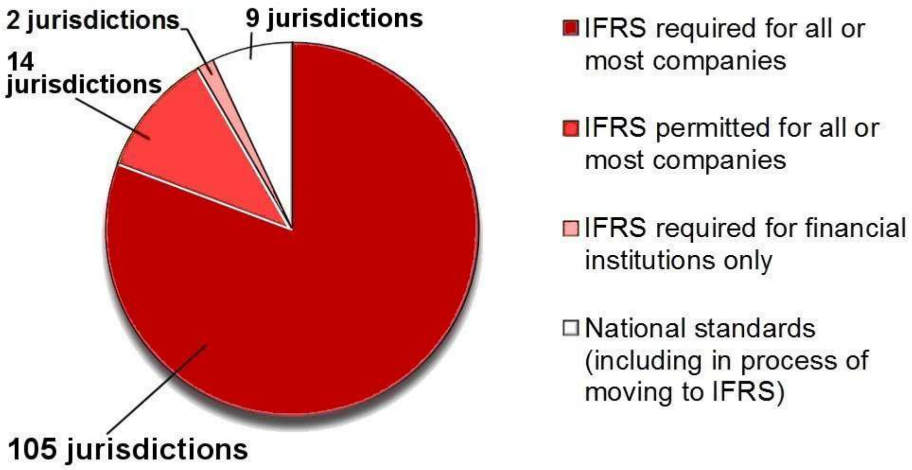
20

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



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:**

Jurisdictions that require or permit IFRS for all or most public companies	Gross Domestic Product (GDP)
European Union and EEA	US$ 17.2 trillion
Jurisdictions other than EU and EEA	US$ 23.3 trillion

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

Goal #2: Assertions of many local 'flavours'

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

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Auditor's report

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

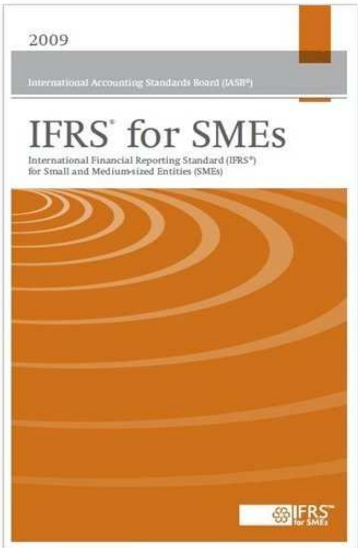
IFRS as issued by the IASB	76 jurisdictions
IFRS as adopted by the EU	33 jurisdictions*
* Many of these also assert compliance with IFRS as issued by the IASB	
National standards	21 jurisdictions

Endorsement process, if any

No endorsement required	58 jurisdictions
European Union process	33 jurisdictions
Endorsement solely by professional accounting body	11 jurisdictions
Endorsement solely by government agency	12 jurisdictions
Involves both professional body and government	6 jurisdictions
IFRS not yet adopted for any domestic or foreign companies	10 jurisdictions

Adoption of the IFRS for SMEs

27



In the 130 jurisdictions for which we have posted profiles:

Already adopted the IFRS for SMEs	63 jurisdictions
Actively considering it	16 jurisdictions

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

Adoption of the IFRS for SMEs

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

All SMEs must use IFRS for SMEs (unless required to use full IFRS)	8 jurisdictions
SMEs must choose either IFRS for SMEs or local GAAP	1 jurisdictions
SMEs must choose either IFRS for SMEs or full IFRS	38 jurisdictions
SMEs must choose either IFRS for SMEs, full IFRS, or local GAAP	16 jurisdictions

The challenge of consistent application

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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

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The challenge of consistent application

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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

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A comment on the use of IFRS in the US

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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…

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A comment on the use of IFRS in the US

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- 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

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Article

The CPA Journal

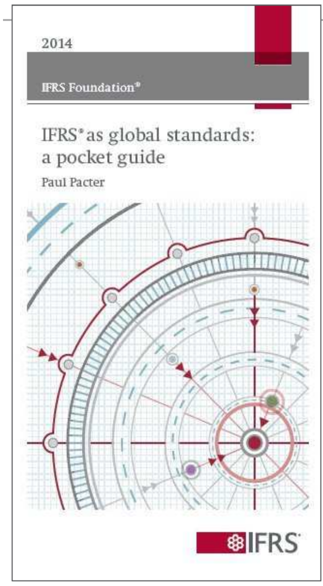
An article explaining the Foundation's profiles project and the information in the Trustees' agenda paper was published in the January 2014 issue of The CPA Journal (United States), print and online: **http://www.cpajournal.com/**

Title: 'Global Accounting Standards—From Vision to Reality'

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

IFRS

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

IFRS

Guide – sample country pages

Botswana

Accounting Standards required for publicly accountable entities (listed companies and financial institutions)

Listed companies and financial institutions: All must use IFRS in their consolidated financial statements. In addition, the Botswana Companies Act requires some other companies also to use IFRS (this is discussed further below).

Separate company financial statements: IFRS.

IFRS endorsement

Which standards do companies follow? IFRS as issued by the IASB.

The auditor's report asserts compliance with: IFRS.

Modifications to IFRS: None.

Endorsement process for new or amended IFRSs? The process of adoption involves the review of the Standard by, and recommendation from, the Botswana Institute of Chartered Accountants (BICA) Technical Committee. The BICA Technical Committee's recommendation is presented to the BICA Council. On approval of the BICA Council, the adoption is finalised. To date, the BICA has adopted all Standards without modification.

Accounting standards required for SMEs

Which standards do SMEs follow? Companies that do not have public accountability (their securities are not publicly traded and they are not a financial institution) and that meet the threshold to be an 'exempt company' under the Botswana Companies Act may use the *IFRS for SMEs*. An exempt company is one that satisfies all three of the following conditions:

- turnover less than Pula 10 million (approximately US$ 1.2 million);
- assets less than Pula 5 million (approximately US$600,000); and
- company is not a subsidiary of a holding company.

A company that does not satisfy all three of the above conditions or that has public accountability must use full IFRS.

Brazil

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

Listed companies other than financial institutions: IFRS is required for all companies whose securities are publicly traded and for most financial institutions whose securities are not publicly traded, for both consolidated and separate (individual) company financial statements.

Separate company financial statements: IFRS (see above).

IFRS endorsement

Which standards do companies follow? IFRS as issued by the IASB, but some options have been eliminated, for example, the revaluation of property, plant and equipment under IAS 16 *Property, Plant and Equipment* and revaluation of intangible assets under IAS 38 *Intangible Assets*.

The auditor's report asserts compliance with: IFRS.

Modifications to IFRS: Brazil modified IFRS to:

- require that, in separate company financial statements, the equity method must be used to account for investments in subsidiaries, associates, and joint ventures; and
- prohibit early adoption.

Endorsement process for new or amended IFRSs? The Comitê de Pronunciamentos Contábeis (CPC, the Brazilian Accounting Pronouncements Committee) approves standards that are identical to IFRS as issued by the IASB. The Comissão de Valores Mobiliários (CVM, Securities and Exchange Commission of Brazil) endorses CPC standards for public entities. The Conselho Federal de Contabilidade (CFC) endorses CPC standards for non-public entities. In addition, the Brazilian Institute of Independent Auditors (IBRACON) is the official entity authorised to annually translate and publish the IFRS Red Book.

Accounting standards required for SMEs

Which standards do SMEs follow? All SMEs are required to use the *IFRS for SMEs* unless they choose to use full IFRS—with one exception: some micro and small entities (gross revenue less than R$3.6 million, which is approximately US$1.8 million) are authorised to use a simplified set of accounting standards established under Resolution CFC 1418/2012.

Guide – sample IFRS summary pages

Overview of IFRS continued...

criteria in IFRS 9, an entity accounts for the gain or loss on the hedging instrument and the hedged item in accordance with the special hedge accounting provisions of IFRS 9.

IFRS 10 ***Consolidated Financial Statements***

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10

- requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
- sets out the accounting requirements for the preparation of consolidated financial statements.

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

IFRS 11 ***Joint Arrangements***

IFRS 11 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (joint arrangements). It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (ie activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. IFRS 11 classifies joint arrangements into two types—joint operations and joint ventures:

- a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement; and
- a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement.

IFRS 11 requires a joint operator to recognise and measure its share of the assets and liabilities (and recognise the related revenues and expenses) in accordance with relevant Standards applicable to the particular assets, liabilities, revenues and expenses.

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A joint venturer recognises its interest in the joint venture as an investment in the arrangement using the equity method (see IAS 28 *Investments in Associates and Joint Ventures*).

IFRS 12 ***Disclosure of Interests in Other Entities***

IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It establishes disclosure objectives and identifies the kind of information an entity must disclose in its financial statements about its interests in those other entities.

IFRS 13 ***Fair Value Measurement***

IFRS 13 defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements.

It applies to all Standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances in which other Standards govern. For example, IFRS 13 does not specify the measurement and disclosure requirements for share-based payment, leases or impairment of assets. Nor does it establish disclosure requirements for fair values related to employee benefits and retirement plans.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (ie an exit price). When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

IFRS 14 ***Regulatory Deferral Accounts***

IFRS 14 describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with this Standard because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

IFRS 14 permits a first-time adopter within its scope to continue to account for regulatory deferral account balances in its first IFRS financial statements in accordance with its previous GAAP when it adopts IFRS.

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Guide: Paul Volcker's introductory note

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> '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)

IFRS

Concluding comment

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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.

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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.

IFRS