
Chapter 1 International GAAP

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1 WHY INTERNATIONAL FINANCIAL REPORTING STANDARDS MATTER

With globalisation has come the increasing integration of world markets for goods, services and capital – with the result that companies that traditionally were reliant on their domestic capital markets for financing now have substantially increased access to debt and equity capital both inside and outside their national borders.

Yet – perhaps not entirely surprisingly – the world of financial reporting has historically been slow to respond reflecting, no doubt, a widespread nationalism in respect of countries' own standards.

Undoubtedly, one of the main advantages of a single set of global accounting standards is that it would enable the international capital markets to assess and compare inter-company performance in a much more meaningful, effective and efficient way than is presently possible. This should increase companies' access to global capital and ultimately reduce the cost thereof. Thus the request for global standards came both from regulatory bodies and from preparers of financial statements. As early as 1989 the International Organisation of Securities Commissions (IOSCO), the world's primary forum for co-operation among securities regulators, prepared a paper noting that cross border security offerings would be facilitated by the development of internationally accepted standards. For preparers, greater comparability in financial reporting with their global peers had obvious attractions.

Notwithstanding these anticipated benefits it is only since 2000 that there has been a realistic prospect of such global standards and that has come about largely as a result of the European Commission's announcement in June 2000 that it would present proposals to introduce the requirement that all listed European Union (EU) companies report in accordance with International Accounting Standards by 2005. This requirement has changed fundamentally not only the face of European financial reporting, but global reporting as well, as regulators in many other countries have followed Europe's lead. Indeed, the International Accounting Standards Board (IASB) reports that almost 120 countries require or permit the use of International Financial Reporting Standards (IFRS) and that 'all remaining major economies have established timelines to converge with or adopt' IFRS.¹

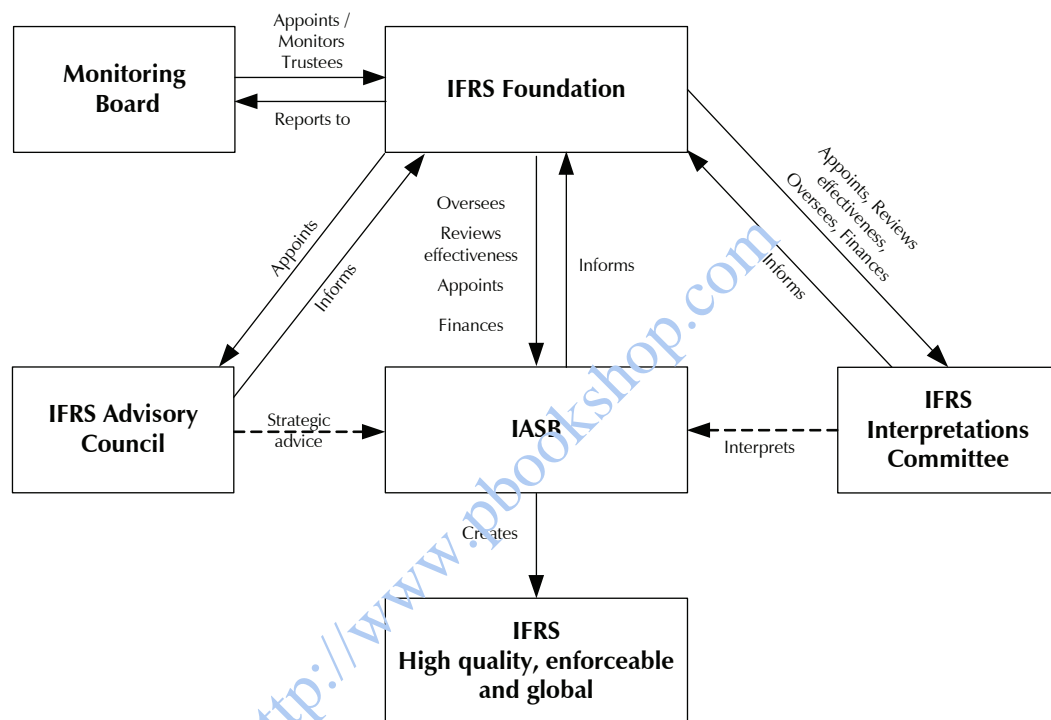
Thus global financial reporting has ceased to be characterised by numerous disparate national systems to the point at which there are today essentially only two – IFRS and US GAAP.

Further, the fall-out from the 2007-2010 financial crisis created a strong underlying political pressure towards convergence of global accounting standards. Comments on the need to achieve this are a regular feature of communications from the Group of Twenty nations (G20).

2 THE IFRS FOUNDATION AND THE IASB

2.1 The standard setting structure

The diagram below illustrates the current structure within which standards are set by the IASB. The various elements of the structure are discussed further below.



Unless indicated otherwise, references to IFRS include the following:

- International Financial Reporting Standards – standards developed by the IASB
- International Accounting Standards (IAS) – standards developed by the International Accounting Standards Committee (IASC), the predecessor to the IASB

- Interpretations developed by the IFRS Interpretations Committee (Interpretations Committee) or its predecessor, the Standing Interpretations Committee (SIC)
- International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) – a stand-alone standard for general purpose financial statements of small and medium-sized entities (as defined).

2.1.1 The IFRS Foundation

The governance of the IFRS Foundation primarily rests with the Trustees of the IFRS Foundation (Trustees) who, in turn, act under the terms of the IFRS Foundation Constitution (the Constitution).² It is a requirement of the Constitution that, in order to ensure a broad international basis, there must be:³

- six Trustees appointed from the Asia/Oceania region;
- six Trustees appointed from Europe;
- six Trustees appointed from North America;
- one Trustee appointed from Africa;
- one Trustee appointed from South America; and
- two Trustees appointed from any area, subject to maintaining overall geographical balance.

The appointment of Trustees to fill vacancies caused by routine retirement or other reasons is the responsibility of the remaining Trustees but subject to the approval of the Monitoring Board as discussed in 2.1.2 below. The appointment of the Trustees is normally for a term of three years, renewable once.⁴

The Constitution requires that the Trustees should comprise individuals that, as a group, provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and officials serving the public interest. Two of the Trustees will normally be senior partners of prominent international accounting firms. To achieve such a balance, Trustees are selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees are required to establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.⁵

The Constitution provides that 'all Trustees shall be required to show a firm commitment to the IFRS Foundation and the IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world's capital markets and by other users.'⁶

The Trustees are responsible also for appointing the members of the IASB, Interpretations Committee and IFRS Advisory Council (the Advisory Council).⁷ In addition, their duties include the following:⁸

- assuming responsibility for establishing and maintaining appropriate financing arrangements;
- reviewing annually the strategy of the IFRS Foundation and the IASB and their effectiveness, including consideration, but not determination, of the IASB's agenda;
- approving annually the budget of the IFRS Foundation and determining the basis for funding;
- reviewing broad strategic issues affecting financial reporting standards, promoting the IFRS Foundation and its work and promoting the objective of rigorous application of IFRS (the Trustees are, however, excluded from involvement in technical matters relating to accounting standards);
- establishing and amending operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;
- approving amendments to the Constitution after following a due process, including consultation with the Advisory Council and publication of an exposure draft for public comment;
- exercising all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council; and
- publishing an annual report on the IFRS Foundation's activities, including audited financial statements and priorities for the coming year.

The IFRS Foundation has developed four principles for a funding system. Those principles are that it should be:⁹

- Broad based;
- Compelling;
- Open ended; and
- Country specific.

The Trustees have sought to establish national funding regimes consistent with these principles in a number of countries. In 2011, the major funders of the IFRS Foundation were the international accounting firms, the EU, the US and Japan.¹⁰

2.1.2 The Monitoring Board

A frequent criticism of the IASB and of the IFRS Foundation has been of its lack of 'accountability' and apparent lack of responsiveness to the concerns of its constituents. This criticism increased as the level of international acceptance of IFRS has grown.

The response to these concerns was the creation of a Monitoring Board to provide a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters.¹¹

The responsibilities of the Monitoring Board are to:

- Participate in the process for appointing Trustees and approve the appointment of Trustees;
- Review and provide advice to the Trustees on the fulfilment of their responsibilities – there is an obligation on the Trustees to report annually to the Monitoring Board;
- Meet with the Trustees or a sub-group thereof at least annually. The Monitoring Board has the authority to request meetings with the Trustees or separately with the chair of the Trustees and with the chair of the IASB to discuss any area of the work of the Trustees or the IASB.¹²

At the time of writing, the Monitoring Board comprises:

- (a) a member of the European Commission;
- (b) a representative of the IOSCO Emerging Markets Committee;
- (c) a representative of the IOSCO Technical Committee;
- (d) the commissioner of the Japan Financial Services Agency;
- (e) the chair of the US SEC; and
- (f) as an observer, a representative of the Basel Committee on Banking Supervision.¹³

The Charter of the Monitoring Board notes that the Monitoring Board's mission is:

- To cooperate to promote the continued development of IFRS as a high quality set of global accounting standards;
- To monitor and reinforce the public interest oversight function of the IFRS Foundation, while preserving the independence of the IASB. In that regard;
 - To participate in the selection and approval of the Trustee appointments;
 - To advise the Trustees with respect to the fulfilment of their responsibilities, in particular with respect to regulatory, legal and policy developments that are pertinent to the IFRS Foundation's oversight of the IASB and appropriate sources of IFRS Foundation funding; and
- To discuss issues and share views relating to IFRS, as well as regulatory and market developments affecting the development and functioning of these standards.¹⁴

When the Trustees originally proposed the Monitoring Board, a number of commentators expressed concerns that it could threaten the independence of the IASB and lead to greater 'political interference' if the Monitoring Board began to influence specific decisions. Concerns about political interference in standard setting increased because of the way that both the FASB and IASB were seen to react to political pressure during the 2007-2010 financial crisis. This goes to the heart of a very difficult balancing exercise. Most observers want the Trustees and the IASB to be responsive to constituents' concerns but they also support the principle of 'independent standard setting' – how does one achieve both?

Regarding the role and influence of the Monitoring Board, the Trustees were satisfied that because its role was restricted to oversight of the Trustees' fulfilment

of their responsibilities there was no risk to the independence of the IASB. Furthermore the preservation of the independence of the IASB is, as noted above, part of the mission of the Monitoring Board. Although the Monitoring Board does not have a mandate to set the technical agenda of the IASB, the Monitoring Board can suggest items for the IASB to consider for its agenda.

To assess whether the three-tier structure of the IFRS Foundation (i.e. the IASB, Trustees and Monitoring Board) is best achieving its goal of increasing accountability whilst maintaining independence, in April 2010 the Monitoring Board initiated a review of the governance structure supporting the development of IFRS. As part of this review, the Monitoring Board issued the *Consultative Report on the Review of the IFRS Foundation's Governance* in February 2011 requesting views on the following key areas:

- Composition and structure of the IASB, Trustees and Monitoring Board
- Oversight, roles and responsibilities of the Trustees and Monitoring Board

In addition, in April 2011 the Trustees issued their *Report of the Trustees' Strategy Review* (Strategy Review). The Strategy Review set out recommendations in the following areas:

- The IFRS Foundation's mission;
- Governance;
- The standard-setting process; and
- Financing the IFRS Foundation.

The review of the Monitoring Board focused primarily on the institutional aspects of governance, such as composition and roles of the Monitoring Board, the IASB and the Trustees. The Strategy Review placed more emphasis on the operational aspects of governance, such as due process. Both reviews were aimed at ensuring the IFRS Foundation's governance balances independence and accountability appropriately to facilitate the development of high quality and truly global standards.

The IFRS Foundation published reports summarising the results of these reviews in February 2012: *Final Report on the Review of the IFRS Foundation's Governance* (Monitoring Board Report) and *Report of the Trustees' Strategy Review 2011, IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade* (Strategy Report). The highlights of the reports are the proposals made on the composition and structure of the IASB, Trustees and Monitoring Board. These include recommendations to limit the membership of the Monitoring Board to only those jurisdictions which commit to domestic use of IFRS in the jurisdiction's capital market and participate in the funding of the IFRS Foundation. The reports also include the decision not to open membership of the Monitoring Board to stakeholders outside of capital market authorities.

A number of other recommendations are made in the reports that would improve transparency and visibility over the IFRS Foundation's governance process. These include increased reporting to the public, as well as regular reporting by the Trustees' Due Process Oversight Committee on operational aspects of due process (e.g. public consultation, outreach activities, field testing, and impact assessments). Also, the role of

Chair and CEO of the IASB will be separated. The Monitoring Board will not be able to set the IASB's agenda, but will continue to be able to refer issues to the Trustees and the IASB Chair for their consideration. The reports also include recommendations to support consistent application of IFRS, including establishing formal cooperation arrangements with regulators and national standard setters to receive feedback on implementation and to encourage actions aimed at addressing divergence.¹⁵

Changing the criteria for members on the Monitoring Board is a signal to jurisdictions that they need to provide a clearer commitment to IFRS to continue to maintain representation. However, the criteria for determining the meaning of 'domestic use' is yet to be determined in order to provide more time for impacted jurisdictions to make their decisions. Reassessment of the current membership is expected to occur in early 2013 and it is likely that impacted jurisdictions will provide some public indication of their intentions before then. Importantly, at the same time, the Trustees have given a strong commitment to ensuring high quality, clear and understandable standards and to their consistent application and implementation. This is a message that the concerns about the quality and consistent application of IFRS have been heard.

The Monitoring Board expects to complete amendments to governing documents and determine candidates against the membership criteria for new permanent membership by the end of 2012. In early 2013, the Monitoring Board expects to start the assessment of existing members' eligibility to remain members.¹⁶

2.1.3 The International Accounting Standards Board (IASB)

At the time of writing the IASB comprises 15 members, however the Constitution requires that this should have been increased to 16 by no later than 1 July 2012. Up to three members may be part time and the remainder full time. The members of the IASB are appointed by the Trustees.¹⁷ The main qualifications for membership of the IASB are professional competence and practical experience.¹⁸ This was reaffirmed in the Strategy Report.

The Trustees are required to select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.¹⁹ Furthermore, the IASB, in consultation with the Trustees, is expected to establish and maintain liaison with national standard-setters and other official bodies concerned with standard-setting to assist in the development of IFRS and to promote the convergence of national accounting standards and IFRS.²⁰

The IASB will normally be required to comprise:

- (a) four members from Asia/Oceania;
- (b) four members from Europe;
- (c) four members from North America;
- (d) one member from Africa;
- (e) one member from South America; and
- (f) two members appointed from any area, subject to maintaining overall geographical balance.²¹

The responsibilities of the IASB are listed in Article 37 of the Constitution. Its primary role is to have complete responsibility for all IASB technical matters including preparing and issuing IFRSs (other than interpretations) and exposure drafts, each of which is required to include any dissenting opinions; and final approval of and issuing interpretations developed by the Interpretations Committee.²²

Approval by at least nine members of the IASB is required for the publication of an exposure draft and IFRS (which includes final interpretations of the Interpretations Committee), if there are fewer than 16 members of the IASB. If there are 16 members, approval is required by at least 10 members.²³ Other decisions of the IASB, including the publication of a discussion paper, require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% of the members.²⁴ The IASB has full discretion over its technical agenda and over project assignments on technical matters. It must, however, consult the Trustees on its agenda, and the Advisory Council on major projects, agenda decisions and work priorities. In addition, the IASB is required to carry out public consultation every three years in developing its technical agenda.²⁵ The first public consultation was started in 2011 (see 3.1.2).

2.1.4 The IASB's Due Process Handbook

The Trustees set up a committee – the Trustees' Due Process Oversight Committee (the Committee) – with the task of regularly reviewing and, if necessary, amending the procedures of due process in the light of experience and comments from the IASB and constituents. The Committee reviews proposed procedures for the IASB's due process on new projects and the composition of working groups and ensures that their membership reflects a diversity of views and expertise. The 'Due Process Handbook' (the Handbook) for the IASB describes the consultative arrangements of the IASB.²⁶

The procedures described in the Handbook address the following requirements:²⁷

- transparency and accessibility;
- extensive consultation and responsiveness; and
- accountability.

In order to gain a wide range of views from interested parties throughout all stages of a project's development, the Trustees and the IASB have established consultative procedures to govern the standard-setting process.²⁸

The IASB's standard-setting process comprises the following stages, with the Trustees having the opportunity to ensure compliance at various points throughout the process:²⁹

- Stage 1: Setting the agenda;
- Stage 2: Project planning;
- Stage 3: Development and publication of a discussion paper;
- Stage 4: Development and publication of an exposure draft;
- Stage 5: Development and publication of an IFRS; and
- Stage 6: Procedures after an IFRS is issued.

It is important to note that the IASB's due process requirements are separated into mandatory and non-mandatory steps. The following due process steps are mandatory:

- developing and pursuing the IASB's technical agenda;
- preparing and issuing IFRSs and exposure drafts, each of which is to include any dissenting opinions;
- establishing procedures for reviewing comments made within a reasonable period on documents published for comment;
- consulting the Advisory Council on major projects, agenda decisions and work priorities; and
- publishing bases for conclusions with IFRSs and exposure drafts.³⁰

The steps specified in the Constitution that are 'non-mandatory' include:³¹

- publishing a discussion document (e.g. a discussion paper);
- establishing working groups or other types of specialist advisory groups;
- holding public hearings; and
- undertaking field tests (both in developed countries and in emerging markets).

If the IASB decides not to undertake any of the non-mandatory steps defined by the Constitution, it is required by the Constitution to state its reasons (known as the 'comply or explain' approach). Explanations are normally made at IASB meetings, and are published in the decision summaries and in the basis for conclusions with the exposure draft or IFRS in question.³²

Although not mandatory, the IASB conducts public meetings and roundtables to ensure that it has appropriate input from its constituents.

As a consequence of issues arising during the 2007-2010 financial crisis, a 'fast track' comment process was developed. Under this process, if the matter is exceptionally urgent, the exposure draft is short, 'and the IASB believes that there is likely to be a broad consensus on the topic, the IASB may consider a comment period of no less than 30 days, but it will set such a short period only after formally requesting and obtaining prior approval from 75 per cent of the Trustees'.³³

A revised Handbook was issued for public comment in May 2012. The revised Handbook incorporates due process enhancements recommended in the Monitoring Board Report and the Strategy Report (see 2.1.2), as well as the recommendations from the *Trustees' Review of the Efficiency and Effectiveness of the IFRS Interpretations Committee* (see 2.1.6). The comment period for the revised Handbook ended on 5 September 2012.³⁴

2.1.5 The IFRS Advisory Council (the Advisory Council)

The Advisory Council (whose members are appointed by the Trustees) provides a forum for geographically and functionally diverse organisations and individuals with an interest in international financial reporting to:

- Give advice to the IASB on agenda decisions and priorities in the IASB's work;
- Inform the IASB on the views of the organisations and individuals on the council on major standard-setting projects; and
- Give other advice to the IASB or the Trustees.³⁵

The Advisory Council comprises ‘thirty or more members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years’.³⁶ The chair of the Council is appointed by the Trustees, and may not be a member of the IASB or a member of its staff.³⁷ The Advisory Council normally meets at least three times a year, and its meetings are open to the public. It is required to be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to the Constitution.³⁸

Members are appointed for an initial term of three years and may be asked to remain for up to three additional years.³⁹

2.1.6 The IFRS Interpretations Committee (the Interpretations Committee)

For IFRS to be truly global standards consistent application and interpretation is required. ‘The mandate of the Interpretations Committee is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance (IFRICs) on those issues.’⁴⁰

The Interpretations Committee assists the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the framework of IFRS. It has 14 voting members. The chair, who is appointed by the Trustees, is a member of the IASB, the Director of Technical Activities or other appropriately qualified individual. The chair does not have the right to vote. The Trustees may appoint representatives of regulatory organisations, who have the right to attend and speak at meetings but not the right to vote.⁴¹ Currently, the European Commission and IOSCO have observer status. The quorum for a meeting is ten members, and approval of draft or final interpretations requires that not more than four voting members vote against the draft or final interpretation.⁴²

The Interpretations Committee meets six times a year. All technical decisions are taken at sessions that are open to public observation. It reviews newly identified financial reporting issues not specifically addressed in IFRS or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment.⁴³ The IASB approves and issues interpretations. Entities that prepare their financial statements in accordance with IFRS are required to comply with issued interpretations.⁴⁴

In May 2012, the Trustees issued their recommendations from their review of the efficiency and effectiveness of the Interpretations Committee, started in October 2010. The main recommendations arising from the review include:

- A broader range of ‘tools’ (e.g. – recommending new application guidance to the standards and proposals for the ‘Annual Improvements Process’) to be deployed by the Interpretations Committee, to enable it to be more responsive to requests for assistance.
- A single set of agenda criteria to be applied when assessing whether the Interpretations Committee should address an issue.

- The agenda rejection notices (i.e. agenda decisions), which are issued by the Interpretations Committee when it decides not to address an issue, should:
 - remain outside the body of IFRSs, and not form part of the requirements;
 - be capable of being read without reference to the staff papers and the original submission; and
 - be exposed for comment for 60 days.
- Greater use of outreach when assessing whether to add an issue to its agenda, and details of that outreach should be described to stakeholders to help them understand the basis for the Interpretations Committee's decisions.⁴⁵

Some of these recommendations will require amendments to the Handbook. Consequently, the Trustees issued an Invitation to Comment *IASB and IFRS Interpretations Committee Due Process Handbook*. The comment period ended on 5 September 2012.

2.1.7 The IASB's 'Annual Improvements Process'

The 'Annual Improvements Process' is designed to deal with 'non-urgent, minor amendments to IFRSs'. Issues dealt with in this process arise from matters raised by the Interpretations Committee and suggestions from IASB staff or practitioners, and focus on areas of inconsistency in IFRS or where clarification of wording is required.

The premise behind the Annual Improvements Process is to streamline the IASB's standard-setting process. If a number of minor amendments are processed together, there will be benefits both to constituents and the IASB. The Interpretations Committee assists the IASB by reviewing and recommending potential amendments to IFRS. 'Annual Improvements' is on the IASB's work plan like its other projects and is subject to the same due process.

3 THE IASB'S TECHNICAL AGENDA AND GLOBAL CONVERGENCE

3.1 The IASB's current priorities and future agenda

The IASB's fiscal year ended 30 June 2012 concluded the first year under the leadership of chair, Hans Hoogervorst. The emphasis of the board continues to be the convergence projects with the FASB, which have consumed a significant effort throughout much of the board's history. In April 2012, Mr. Hoogervorst and Leslie Seidman, FASB chair, issued a joint update on convergence in which they stated that the boards are working to complete their joint projects on financial instruments, insurance contracts, leases and revenue recognition. They acknowledged the delays in completing these projects, but stated that while unfortunate, the delays are necessary to ensure that any changes are operational and will bring about much-needed improvement to financial reporting. They emphasised the need for changes to accounting standards to be appropriate; adequate opportunity for stakeholder participation in the process; and the boards to be responsive in considering stakeholder feedback.⁴⁶

Completion of these joint projects, in their entirety, is not expected before mid-2013, at the earliest. As discussed further at 3.1.2 below, the results of the IASB's 2011 agenda consultation are expected later in 2012. In addition, the SEC's decision on whether and how IFRS should be incorporated into the US financial reporting system, originally expected in 2011, is now not expected until 2013. All of these factors will influence the board's future agenda and are discussed in more detail below.

3.1.1 *The IASB's current priorities*

The majority of the projects on the IASB's current work plan stem from a Memorandum of Understanding between the IASB and the FASB (see 3.2.2 below).

The IASB's work plan as of 26 July 2012 (July 2012 Work Plan) indicates an emphasis on the revenue recognition, leases, financial instruments and insurance contracts projects. As stated above, both boards consider the need for improvements in these areas to be the most urgent. Based on the July 2012 Work Plan, it appears the boards believe there is still work to be done on these projects as final standards are only projected for revenue recognition (mid-2013) and the general hedge accounting phase of financial instruments (Q4 2012), although exposure drafts are expected for the others by the end of 2012.

Other IASB projects identified on the July 2012 Work Plan are:

- IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* – Effective date and transition methods;
- Annual Improvements;
- Consolidation – Investment entities;
- Comprehensive Review of IFRS for SMEs;
- Post-implementation reviews of IFRS 8 – *Operating Segments* – and IFRS 3 – *Business Combinations*; and
- Final strategy for the future agenda (discussed below).

The IASB's current work plan is available on its website under the 'Standards development' tab, 'Workplan for IFRSs'.

3.1.2 *Agenda consultation 2011*

As discussed in 2.1.3, the Constitution requires that that the IASB carry out public consultation every three years in developing its technical agenda. This process commenced on 26 July 2011 when the IASB issued a Request for Views on the strategic direction and overall balance of its future agenda.

The IASB proposed the following strategic foundation for setting its future agenda:

- A more diverse IFRS community will potentially lead to new issues;
- A more complex market environment will create new challenges in financial reporting; and
- The new and amended IFRS that have been issued in 2011 or are expected to be issued through 2013 will place pressure on preparers to implement the changes and users to understand the key differences; preparers and users may want a period of calm before additional significant projects are added to the agenda.

The Request for Views also highlighted that the strategy of the future agenda should not only focus on the development of new IFRS, but should also emphasise the need to perform post-implementation reviews of issued IFRS and targeted narrow scope improvements to existing IFRS.

The IASB intended to issue a Feedback Statement in the third quarter of 2012 summarising the responses from the Request for Views. The IASB discussed its future agenda at its May 2012 meeting. At this meeting, the board expressed support for prioritising the following areas:

- Restarting the Conceptual Framework project, focusing on elements, measurement, presentation, disclosure and the reporting entity;
- Developing standards-level projects on:
 - Rate-regulated activities
 - Application of the equity method in separate financial statements
 - Potential amendments to IAS 41 – *Agriculture* (for bearer biological assets);
- Re-commencing research on:
 - Emissions trading schemes
 - Business combinations under common control;
- Initiating a research programme that will initially focus on a number of key areas highlighted in the agenda consultation (e.g. discount rates, the equity method of accounting);
- Hosting a public forum to assess strategies for improving the quality of financial reporting disclosures, within the existing disclosure requirement; and
- Establishing a consultative group to assist with matters related to Islamic transactions and instruments.

The board is still considering the structure of the technical programme and project-level priorities. The final strategy for the future agenda is expected to be published by the end of 2012.

3.2 IFRS/US GAAP convergence

‘Convergence’ is a term used to describe the coming together of national systems of financial reporting and IFRS. Since its formation in 2001, the IASB has made great strides toward achieving global accounting convergence, with the result that the global acceptance of IFRS is rapidly becoming a reality. All listed EU companies are already required to prepare their consolidated financial statements in accordance with adopted IFRSs. Elsewhere, many non-EU countries have either adopted or are in the process of adopting or are aligning their national standards with IFRS. For an entity to assert compliance with IFRS it is required to apply IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The IASB has therefore established unambiguously the principle that full application of its standards and related interpretations is necessary for an entity to be able to assert that its financial statements comply with IFRS (as issued by the IASB). Consequently, it is necessary for countries that align their national standards with IFRS to require the application of IFRS 1 so that entities reporting under those standards can assert compliance

with IFRS. In addition, an entity that applies IFRS as amended by a local authority cannot assert compliance with IFRS.

3.2.1 Background

Since 2002, the IASB and FASB (the Boards) have been working together to improve IFRS and US GAAP, respectively, and to achieve convergence. Some of the significant milestones in the process include:

- September 2002 Norwalk Agreement, in which the Boards each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting;
- February 2006 Memorandum of Understanding (MOU) that reaffirmed the Boards' shared objective of developing high quality, common accounting standards for use in the world's capital markets;
- July 2007 SEC proposal to accept IFRS financial statements from foreign private issuers without reconciliation to US GAAP, which led to the August 2007 SEC Concept Release to obtain information about the extent and nature of the public's interest in allowing US issuers to prepare financial statements in accordance with IFRS for purposes of complying with the rules and regulations of the SEC;⁴⁷
- August 2008 SEC roadmap outlining the milestones and conditions that, if met, could lead to the use of IFRS in the US (Roadmap);
- September 2008 update to the MOU, which identified targets for completion of convergence projects that the IASB and the FASB believed were most critical;
- September 2009 G-20 request that the international accounting bodies redouble their efforts to achieve a single set of high quality, global accounting standards and complete their convergence project by June 2011;⁴⁸
- February 2010 SEC Work Plan (IFRS Work Plan), which identified six areas that the SEC believes are most relevant to determination by the SEC regarding the use of IFRS by US issuers; and
- July 2012 SEC staff Final Report addressing its findings related to the six areas identified in the IFRS Work Plan.

Many see the convergence of accounting standards in the US as a prerequisite step towards developing a single accounting framework. As former IASB Chairman Sir David Tweedie noted at the December 2010 AICPA National Conference on Current SEC and PCAOB Developments, 'while we can have international standards without the US, we certainly can't have global standards without the US, and that's why it is so important that the US is involved'. The SEC has, for many years, been committed to the goal of a single set of high-quality global accounting standards and has strongly supported the efforts of the IASB and the FASB to align their standards. Indeed, the elimination of significant accounting differences between US GAAP and IFRS should make a transition to IFRS in the US easier if the SEC ultimately decides to permit the use of IFRS in the US.

3.2.2 Status

The MOU identified short-term and longer-term projects that the Boards agreed would bring the most significant improvements to IFRS and US GAAP. In April 2012, the IASB and FASB issued a joint update on convergence (April 2012 Joint Update), which concluded that most of the short-term projects had been completed or were close to completion. The following excerpt from the April 2012 Joint Update summarises the status of the short-term projects:⁴⁹

Project	Status	Milestone
Share-based payments	Completed	Converged standards issued in 2004.
Segment reporting	Completed	IFRS 8 <i>Segment Reporting</i> [sic] issued in 2006.
Non-monetary assets	Completed	The FASB converged the treatment of certain nonmonetary exchanges to require recognition at fair value unless the transaction lacks commercial substance in FAS 153, <i>Nonmonetary Assets</i> [sic] issued in 2004.
Inventory accounting	Completed	The FASB converged the treatment of excess freight and spoilage in FAS 151, <i>Inventory Costs</i> issued in 2004.
Accounting changes	Completed	The FASB converged the treatment of voluntary changes in accounting policy by requiring retrospective application in FAS 150 [sic], <i>Accounting Changes and Error Corrections</i> issued in 2005.
Fair value option	Completed	Fair value option for financial instruments introduced into US GAAP in 2007.
Borrowing costs	Completed	Revised IAS 23 <i>Borrowing Costs</i> in 2007.
Research and development	Completed	US GAAP amended for acquired R&D, as part of business combinations, in 2008.
Non-controlling interests	Completed	Mezzanine presentation eliminated from US GAAP, as part of business combinations, in 2008.

Project	Status	Milestone
Joint ventures	Completed	IFRS 11 <i>Joint Arrangements</i> issued in May 2011. Establishes principles for the financial reporting by parties to a joint arrangement.
Income tax	Reassessed as a lower priority project. No immediate action	Joint exposure draft published in 2009. The IASB may consider a fundamental review of the accounting for income taxes at a later date.
Investment property entities	In process	The FASB issued a proposal to require investment property entities to measure their investment properties at fair value.

The Boards reported in the April 2012 Joint Update that most of the longer-term projects identified in the 2008 update to the MOU also are complete, as the following excerpt summarises:⁵⁰

Project	Status	Milestone
Business combinations	Completed	Joint requirements for business combination accounting and non-controlling interests issued in 2008.
Derecognition	Completed	Each board has introduced reforms substantially aligning the disclosure requirements and bringing US GAAP accounting requirements closer to IFRSs.
Consolidated financial statements (including disclosure about off balance sheet risks)	Completed	IFRS 10 <i>Consolidated Financial Statements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i> issued in May 2011. The FASB issued proposed clarification relating to principals vs. agents in 2011.
Fair value measurement	Completed	FASB Statement No. 157 – <i>Fair Value Measurements</i> – issued in 2006. IFRS 13 – <i>Fair Value Measurement</i> – issued in May 2011.
Post-employment benefits	Completed	Amendments to IAS 19 <i>Employee Benefits</i> issued in 2011.

Project	Status	Milestone
Financial statement presentation – other comprehensive income	Completed	Amendments to IFRSs and US GAAP for presentation of other comprehensive income issued in 2011.
Financial instruments with the characteristics of equity	Reassessed as a lower priority.	Joint discussion paper published in 2008.
Investment entities	IASB and FASB published proposals in August and October 2011, respectively.	<p>The IASB's proposal would exempt a class of entities whose substantive activity is investing for capital appreciation, investment income, or both from consolidating entities they control. Instead, these investment entities would measure controlled investees at fair value, with any changes in fair value recognised in profit or loss.</p> <p>The FASB's proposal would amend the existing guidance in US GAAP for investment companies to develop converged criteria for assessing whether an entity is an investment company.</p>

At the time of writing, there are three longer-term priority MOU projects that the Boards have not finalised – financial instruments, revenue recognition and leases. The Boards have also been working on improvements to the accounting for insurance contracts. None of these projects is expected to be completed before the second half of 2013, at the earliest.

Convergence was intended to be a relatively short-term process to address major differences, thereby bringing US GAAP and IFRS closer together. While the converged standards are similar, differences remain. In addition, there are many areas of accounting with potentially significant accounting differences, for which no plans for convergence exist. Examples include, but are not limited to, depreciation of fixed asset components, inventory measurement and capitalisation of development costs. Completion of the convergence projects will not result in a single set of standards.

In February 2010, the SEC reaffirmed its longstanding commitment to the goal of a single set of high-quality global accounting standards and expressed its continued support for the convergence of US GAAP and IFRS. To aid the SEC's evaluation of IFRS use in the US, the staff of the Office of the Chief Accountant set out its IFRS Work Plan – a comprehensive plan to address specific factors and areas of concern before the SEC makes its decision on whether, when and how it will further

incorporate IFRS into the US financial reporting system for US issuers. The IFRS Work Plan addressed the following areas:

- Sufficient development and consistent application of IFRS;
- Independence of the standard setting process;
- Investor understanding and education;
- Examination of the US regulatory environment;
- The effect of IFRS on US issuers, both large and small; and
- Human capital readiness.

In July 2012, the SEC staff issued its Final Report on its IFRS Work Plan summarising what it has learned. The staff said that, based on its research, the IASB has made significant progress in developing a comprehensive set of accounting standards. However, constituents and the SEC staff expressed concerns about a variety of issues, including: consistency in application of IFRS; independence and funding of the IASB; lack of industry-specific guidance; and cost of moving to IFRS. Along with other information, the Final Report will be used by the SEC Commissioners to make their decision. The Final Report does not provide a recommendation to the SEC Commissioners. Instead, the report focuses primarily on methods other than adoption of the IASB's standards and indicates that an endorsement approach that retains a role for the FASB may reduce or eliminate many of the concerns summarised in the Final Report.

3.2.3 *The future for convergence*

The IASB discussed the place of convergence on its future agenda at its May 2012 meeting. The IFRS staff presented a paper summarising the feedback received from constituents on its 2011 agenda consultation and proposing an IASB response to be included in a Consultation and Feedback Statement (Feedback Statement). One of the messages the staff received from respondents to the 2011 agenda consultation was for the IASB to consider whether convergence should continue to be a priority. North American respondents supported retaining convergence as a main criterion when setting the agenda.⁵¹ An excerpt from the staff's proposed response to this point follows:

'Our foremost objective now is to develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards. That objective has largely superseded convergence as a significant driver of our agenda setting process. Accordingly, our revised *Due Process Handbook*, which is currently out for public consultation, has removed convergence from the list of factors that are influential in setting our agenda. Our aim of developing a single set of global accounting standards will require us to be more inclusive in standard-setting and we are looking at developing a more formal framework for working collaboratively with a range of jurisdictions'.⁵²

The Feedback Statement, which was expected to be published in the third quarter of 2012, will summarise the IASB's proposed strategy for developing its future agenda. While several board members indicated that they intended to provide comments and suggestions on the paper outside the meeting, there was no specific

discussion of the topic of convergence. However, it is clear from the staff's response quoted above that the IASB staff and, presumably, some board members believe that the formal convergence efforts should come to an end.

The SEC still needs to analyse and consider the primary question – whether and, if so, how and when IFRS should be incorporated into the US financial reporting system. Shortly before the issuance of the Final Report, Hans Hoogervorst was quoted as saying 'We need the U.S. on board to be a truly global standard and what I would really appreciate is to have the expertise of the SEC on board as well'.⁵³

We do not expect the SEC to make a decision before 2013. We continue to support a single set of high-quality global standards, and believe an endorsement approach in the US is a thoughtful and balanced way of achieving that ultimate goal. We believe that endless convergence efforts are not sustainable.

3.3 The impact of the financial crises

The 2007-2010 financial crisis had a significant impact on the IASB and on the development of IFRS. At a basic level, the time the board had to spend discussing issues arising from the crisis caused delays in other projects. More importantly, it added significantly to the board's workload. The following projects were added to the IASB agenda in 2008 and 2009 as 'financial crisis related projects':

- Consolidation;
- Replacement of IAS 27 – *Consolidated and Separate Financial Statements*
- Disclosures about unconsolidated special purpose entities and structured entities;
- Investment companies;
- Derecognition disclosures;
- Fair value measurement;
- Guidance;
- Measurement uncertainty analysis disclosure; and
- Financial instruments:
 - Classification and measurement
 - Impairment
 - Hedge accounting
 - Asset and liability offsetting.

These projects were taken on jointly with the FASB. The intention was to complete them 'expeditiously' and in any event no later than 30 June 2011. Although the IASB and the FASB have made an enormous effort on these and other projects, and many have been completed, the financial instruments projects are still in progress and the goal of a common IFRS-US GAAP financial instruments standard has not yet been achieved. In particular, the IASB and the FASB have different views on how to record impairment of financial assets. Although both boards are expecting to issue exposure drafts on impairment of financial assets by the end of 2012, at the time of writing they are working on separate exposure documents.

The Financial Stability Forum (now the Financial Stability Board) was established to enhance cooperation amongst the various national and international regulatory bodies. In 2008 it raised concerns about the difficulty of valuing financial instruments in markets that had become illiquid. The IASB responded by the appointment of an Expert Advisory Panel, which proceeded to produce valuation guidance (ultimately subsumed into IFRS 13 and by the FASB in ASC 820 – *Fair Value Measurement*). Subsequently, the IASB and FASB worked hard to ensure that there was consistency of guidance between IFRS and US GAAP. In May 2012, the Financial Stability Board announced the formation of the Enhanced Disclosure Task Force. One of the objectives of the task force is to develop principles for enhanced disclosures by financial institutions of their risk exposures and risk management practices, which have been the subject of some criticism in recent years. The task force will work with standard setting bodies, including the IASB and the FASB, as it develops its recommendations, which are expected in October 2012.⁵⁴

Meanwhile, the more recent sovereign debt crisis has emphasised the need for consistent interpretation and regulation of IFRS. This prompted Hans Hoogervorst in August 2011 to issue a letter to the chair of the European Securities and Markets Authority commenting on the IASB's observations on European entities' accounting for distressed sovereign debt. In his letter, Mr. Hoogervorst observes inconsistencies among entities in Europe in the application of IAS 39 – *Financial Instruments: Recognition and Measurement* – with respect to the accounting requirements for fair value measurement and impairment losses.⁵⁵ There has been more coordinated activity among preparers and regulators in 2012 in dealing with sovereign debt issues as evidenced by such matters being taken to the Interpretations Committee. While the IASB's stated role is not to *ensure* compliance with IFRS, as noted at 2.1.2, the Strategy Report contains recommendations to support consistent application of IFRS by, among other things, working more closely with regulators.

Although the IASB had identified a need to improve standards on financial instruments and other topics before these crises emerged, weaknesses in IFRS did not cause the crises. It is to be hoped that the simpler standard on accounting for financial instruments that the IASB and FASB set out to develop ultimately will be issued. Such a standard may lead to greater consistency and transparency in financial reporting with the result that financial statements and the risks to which entities, particularly financial institutions, are exposed being more easily understood.

4 THE ADOPTION OF IFRS AROUND THE WORLD

4.1 Worldwide adoption

Since 2001, there has been a tremendous increase in the adoption of IFRS around the world. The precise way in which this has happened has varied among jurisdictions. This section sets out a brief description of how a number of key jurisdictions in each continent have approached the adoption.

The following table summarises IFRS adoption (for consolidated financial statements) in countries with domestic market capitalisation exceeding US\$500 billion as at 30 June 2012. For further details on selected countries/regions, see 4.2 to 4.6 below.

Country	Required	Permitted
Australia	Required for all publicly accountable entities and any entity preparing general purpose financial statements. From 1 July 2013, non-publicly accountable entities are required to apply IFRS recognition and measurement requirements with simplified disclosures.	
Brazil	Required for regulated public companies, with exemptions for banks and real estate companies; other companies must follow converged national standards.	
Canada	Required for publicly accountable entities; some deferrals to 2014.	IFRS is permitted for all other entities.
Mainland China	Substantially converged national standards, with a more simplified form of disclosures.	
European Union	IFRS as adopted by the European Union (EU IFRS – see 4.2.1) required for consolidated financial statements of all listed companies and some unlisted companies. Exemption for non-EU companies applying for listing on an EU regulated market that apply certain GAAP determined by the European Commission to be equivalent to EU IFRS.	EU member states may permit or require the application of EU IFRS by unlisted companies.
France	See European Union.	EU IFRS permitted for the consolidated financial statements of non-listed entities.
Germany	See European Union.	EU IFRS permitted for the consolidated financial statements of non-listed entities.
Hong Kong	Converged national standards, except for differences related to effective dates and transitional provisions for certain standards.	IFRS permitted for listed companies incorporated overseas.
India	IFRS converged standards, with numerous departures, to apply from a date not yet determined.	IFRS permitted for listed companies with subsidiaries.

Country	Required	Permitted
Indonesia	Converged national standards to 2009 version of IFRS for fiscal years ended 31 December 2011, with prospective application and exemption from IFRS 1.	
Italy	See European Union. EU IFRS is required to be used by non-listed financial institutions and insurance companies, as well as by other regulated enterprises, in the preparation of statutory consolidated financial statements.	EU IFRS permitted in the statutory consolidated financial statements of all other non-listed entities and non-regulated enterprises except for SMEs.
Japan	Considering mandatory adoption.	Permitted for companies with global financial or operating activities.
Mexico	Required for consolidated financial statements of listed entities filed with securities regulator, except for banks and insurance companies.	
Netherlands	See European Union.	EU IFRS permitted for the consolidated financial statements of non-listed entities.
Russia	Required for banks, insurance entities and most equity-listed companies, beginning 31 December 2012; some deferrals to 2015. Substantially converged national standards.	
Singapore	Converged national standards; adoption deferred to 2015.	Permitted for foreign filers.
South Africa	Required for all listed companies. From December 2012, non-listed companies will use either IFRS or IFRS for SMEs.	
Spain	See European Union.	EU IFRS permitted for non-listed groups for consolidated financial statements; no reversion to local GAAP once an entity has applied EU IFRS.

Country	Required	Permitted
Switzerland	Issuers of equity securities that are incorporated in Switzerland and listed under the Main Standard on the SIX Swiss Exchange (SIX) must apply either IFRS or US GAAP. Other listed entities incorporated in Switzerland must apply IFRS, US GAAP or Swiss GAAP-FER. Entities not incorporated in Switzerland must apply IFRS, US GAAP or a national GAAP deemed by the SIX to be equivalent.	IFRS permitted in consolidated statutory financial statements of non-listed entities.
Taiwan	Adopting 2010 version of IFRS ('Taiwan-IFRS'), which is required for annual periods beginning 1 January 2013 for listed companies and certain financial institutions.	IFRS permitted for foreign issuers, with reconciliation to 'Taiwan-IFRS'.
United Kingdom	See European Union.	EU IFRS permitted for all companies, except in the charities sector; restrictions on reversion to local GAAP once an entity has adopted EU IFRS.
United States	Substantial convergence of selected standards, considering incorporation.	Permitted for foreign private issuers preparing financial statements in accordance with IFRS as issued by the IASB.

4.2 Europe

4.2.1 EU

On 19 July 2002, the European Parliament adopted Regulation No. 1606/2002 (the Regulation), which required publicly traded EU incorporated companies⁵⁶ to prepare, by 2005 at the latest, their consolidated financial statements under IFRS 'adopted' (as discussed further below) for application within the EU.

Although an EU regulation has direct effect on companies, without the need for national legislation, the Regulation provides an option for EU member states to permit or require the application of adopted IFRS in the preparation of annual unconsolidated financial statements and to permit or require the application of adopted IFRS by unlisted companies. This means that EU member states can require the uniform application of adopted IFRS by important sectors, such as banking or insurance, regardless of whether or not companies are listed. An analysis of the implementation of the Regulation published in 2010 shows that nearly all EU member states use the option to permit the application of adopted IFRS in the

consolidated accounts of some or all types of unlisted companies. More than half of the EU member states also permit the application of adopted IFRS in the annual financial statements of some or all types of unlisted companies.⁵⁷

The Regulation established the basic rules for the creation of an endorsement mechanism for the adoption of IFRS, the timetable for implementation and a review clause to permit an assessment of the overall approach proposed. The European Commission took the view that an endorsement mechanism was needed to provide the necessary public oversight. The European Commission considered also that it was not appropriate, politically or legally, to delegate accounting standard setting unconditionally and irrevocably to a private organisation over which the European Commission had no influence. In addition, the endorsement mechanism is responsible for examining whether the standards adopted by the IASB satisfy relevant EU public policy criteria.

The role of the endorsement mechanism is not to reformulate or replace IFRS, but to oversee the adoption of new standards and interpretations, intervening only when these contain material deficiencies or have failed to cater for features specific to the EU economic or legal environments. The central task of this mechanism is to confirm that IFRS provides a suitable basis for financial reporting by listed EU companies. The mechanism is based on a two-tier structure, combining a regulatory level with an expert level, to assist the European Commission in its endorsement role.

The recitals to the Regulation state that the endorsement mechanism should act expeditiously and also be a means to deliberate, reflect and exchange information on international accounting standards among the main parties concerned, in particular national accounting standard setters, supervisors in the fields of securities, banking and insurance, central banks including the European Central Bank, the accounting profession and users and preparers of accounts. The mechanism should be a means of fostering common understanding of adopted international accounting standards in the EU community.⁵⁸

The European Commission is advised on IFRS by the European Financial Reporting Advisory Group (EFRAG) and specifically by its Technical Expert Group. EFRAG is a private sector body established by the European organisations prominent in European capital markets, e.g. the Federation of European Accountants (FEE) and the European Banking Federation. In addition to advising the European Commission on endorsement of IFRS, EFRAG is the mechanism by which Europe as a whole can participate in the global debate on accounting standards and it coordinates European responses to IASB proposals. The European Commission also seeks advice from its member states through the Accounting Regulatory Committee.

Concerns have been expressed about the speed of the EU endorsement process but to date, apart from the carve out from IAS 39 (refer to Chapter 42), all IASB standards to have gone through the process have ultimately been endorsed. However, a number of Interpretations Committee interpretations have had delayed application dates. At the time of writing, there are discussions about whether the preparation time for some new standards is sufficient. EFRAG does not support the mandatory effective date of 1 January 2013 for IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 – *Investments in Associates and Joint Ventures* – because field-tests it

has conducted provided evidence that some financial institutions would need more time to implement these standards in a manner that brings reliable financial reporting to capital markets. Despite its overall positive endorsement advice, EFRAG has recommended the mandatory effective date of the standards to be 1 January 2014, with early adoption permitted.⁵⁹ Finally, discussions about the adoption of IFRS 9 – *Financial Instruments* – could also be difficult in the future. At present, the process has not started pending finalisation of all aspects of the standard by the IASB.

4.2.2 Russia

Since 1998, Russian Accounting Principles (RAP) have been gradually converging towards IFRS. Most of RAP is substantially based on IFRS, although some IFRSs have no comparable RAP standard and some RAP standards that are based on IFRS have not been updated for recent changes to the comparable IFRS.

Since 2004, the Central Bank of the Russian Federation (CBR) has required credit institutions to file financial statements prepared in accordance with IFRS as issued by the IASB. For public reporting purposes, all Russian listed companies prepare their financial statements in accordance with RAP, except for ‘A-listed’ companies, which are also required to prepare financial statements in accordance with IFRS or US GAAP. Statutory financial statements also are required to be prepared in accordance with RAP.

In 2010, Russian Federal Law (the Law) established an IFRS endorsement process in Russia. Under the Law, individual IFRSs (standards and interpretations) become mandatory starting from the beginning of the calendar year following the year of their endorsement, or from the effective date specified in the IFRS, if it is later. IFRSs can be voluntarily applied after they are endorsed but before their effective date.

The Law allows the following companies to defer the adoption of IFRS until 2015 at the latest:

- Listed companies that prepare consolidated financial statements under internationally recognised accounting principles other than IFRS (e.g. US GAAP);
- Companies with only listed debt securities.

The IFRS endorsement process involves an analysis of the Russian language text of an IFRS, provided by the IFRS Foundation, by the National Organization for Financial Accounting and Reporting Standards Foundation (NOFA), an independent, non-commercial organisation identified by the Ministry of Finance of the Russian Federation (Ministry of Finance). NOFA performs an analysis of an individual IFRS’s suitability for the Russian financial reporting system. NOFA advises the Ministry of Finance whether an IFRS should be endorsed as issued by the IASB or whether certain requirements should be ‘carved out’ to meet the needs of the financial reporting system in Russia. The Ministry of Finance, after consultation with the CBR and the Federal Service for Securities Market, makes the final decision on endorsement and publication of an IFRS.

On 25 November 2011, the Ministry of Finance endorsed, without any ‘carve outs’, all IFRSs effective from 1 January 2012. Following this endorsement, banks, insurance entities and most equity-listed companies have to file consolidated IFRS financial statements for fiscal years ending 31 December 2012 and thereafter.

4.3 Americas

4.3.1 US

See 3.2 above for a discussion of the status of US adoption of IFRS.

4.3.2 Canada

For publicly accountable enterprises, the Accounting Standards Board (AcSB) has adopted IFRS as Canadian GAAP for fiscal years beginning on or after 1 January 2011, with the following exceptions:

- Entities with rate-regulated activities have the option to defer their adoption of IFRS by one year to 1 January 2013. However, such entities that are also reporting issuers filing with Canadian securities commissions will be required to adopt IFRS for financial years beginning on or after 1 January 2012, unless they seek and are granted permission to use US standards as more fully described below.
- Investment companies and segregated accounts of life insurance enterprises have the option to defer their adoption to 1 January 2014 to correspond with the anticipated completion date for the IASBs *Investment Entities* project.
- Pension plans, and benefit plans that have characteristics similar to pension plans, will follow the accounting standards for pension plans issued by the AcSB as of 1 January 2011, rather than IAS 26 – *Accounting and Reporting by Retirement Benefit Plans*.

The term ‘publicly accountable enterprises’ encompasses public companies and some other classes of enterprise that have relatively large or diverse classes of financial statement users. Canadian publicly accountable enterprises that are registered with the US SEC are permitted to apply US accounting standards rather than IFRS. SEC registered Canadian entities operating in industries dominated by US entities tend to favour US accounting standards over IFRS. In addition, securities regulators have indicated that they will consider permitting the use of US standards by Canadian rate-regulated entities that file with Canadian securities commissions even if they are not SEC registered. A number of these entities have been granted permission to use US standards.

For non-publicly accountable enterprises and not-for-profit organizations the AcSB has developed new bases of accounting that are derived from Canadian standards rather than IFRS, although IFRS is also available for use by those entities on a voluntary basis.

The adoption of IFRS in Canada for publicly accountable enterprises means that the AcSB has effectively ceased to make final decisions on most matters affecting the technical content and timing of implementation of standards applied to publicly accountable enterprises in Canada. The AcSB’s plans for incorporating new or amended IFRS into Canadian standards include reviewing all IASB documents

issued for comment. As part of this process, the AcSB will seek the input of Canadian stakeholders by issuing its own exposure draft of the IASB proposals, together with a document highlighting the key elements of the IASB proposals that are particularly relevant to Canadian stakeholders. In addition, the AcSB may perform outreach activities such as public roundtables. Any changes to IFRS must be approved by the AcSB before becoming part of Canadian GAAP.

While the AcSB retains the power to modify or add to the requirements of IFRS, it intends to avoid changing IFRS when adopting them as Canadian GAAP. Accordingly, the AcSB does not expect to eliminate any options within existing IFRS. As issues relevant to Canadian users of financial information arise in the future, the AcSB will work to resolve them through the Interpretations Committee or the IASB. In the event that a resolution by the Interpretations Committee or IASB is not possible the AcSB will stand ready to develop additional temporary guidance.

The AcSB has an IFRS Discussion Group to provide a public forum to discuss the application of IFRS in Canada and to identify matters that should be forwarded to the Interpretations Committee for further consideration. The Group does not interpret IFRS or seek consensus on its application in Canada. It meets in public four times per year and has generated several suggestions for the Interpretations Committee's agenda.

4.3.3 Brazil

Local accounting standards in Brazil (CPCs) have been converged with IFRS since 2010 and public companies regulated by the 'Comissão de Valores Mobiliários' (CVM) are now also required to make a formal statement of compliance with IFRS as issued by the IASB for their consolidated financial statements. The only exception is for homebuilding companies, which are temporarily permitted to continue to apply IAS 11 – *Construction Contracts* – rather than IAS 18 – *Revenue* – under IFRIC 15 – *Agreements for the Construction of Real Estate*.

Banks are regulated by the Brazilian Central Bank, which continues to require preparation of financial statements under its pre-existing rules. However, larger banks have also been required to prepare financial statements in accordance with IFRS since 2010, which must be made publicly available. Insurance companies were required to adopt the local CPCs, and hence IFRS, in 2011.

Non-public companies outside financial services are required to apply the CPCs. Smaller non public companies are permitted to apply an equivalent of IFRS for SMEs.

4.4 Asia

4.4.1 China

4.4.1.A Mainland China

The developments in IFRS have been playing an important role in the development of accounting standards and practices in China. The Ministry of Finance (the MOF) – through its Accounting Regulatory Department – is responsible for the promulgation of accounting standards. In 1993, the MOF started a work programme

to develop a set of *Accounting Standards for Business Enterprises*. Before 2006, China had promulgated and implemented *Accounting Standards for Business Enterprises – Basic Standard*, with 16 specific standards, as well as *Accounting System for Business Enterprises*, *Accounting System for Financial Institutions* and *Accounting System for Small Business Enterprises* which are applicable to various business enterprises.

Representatives of the China Accounting Standards Committee (CASC) – which falls under the Accounting Regulatory Department of the MOF – and the IASB met in Beijing in November 2005 to discuss a range of issues relating to the convergence of Chinese accounting standards with IFRS. At the conclusion of the meeting, the two delegations released a joint statement setting out key points of agreement, including the following:

- The CASC stated that convergence is one of the fundamental goals of its standard-setting programme, with the intention that an enterprise applying Chinese accounting standards should produce financial statements that are the same as those of an enterprise that applies IFRS; and
- The delegation acknowledged that convergence with IFRS will take time and how to converge with IFRS is a matter for China to determine.

In February 2006, the MOF issued a series of new and revised *Accounting Standards for Business Enterprises* (ASBE), which included the revised *Basic Standard*, 22 newly-promulgated accounting standards and 16 revised accounting standards. The new and revised ASBE was effective from 1 January 2007 for listed companies. Other companies are also encouraged to adopt it. In April 2010, the MOF issued the *Road Map for Continual Convergence of the ASBE with IFRS* (the Road Map), which requires the application of ASBE by all listed companies, some non-listed financial enterprises and central state-owned enterprises, and most large and medium-sized enterprises. The Road Map also states that ASBE will continue to maintain convergence with IFRS.

ASBE, to a large extent, represents convergence with IFRS, with due consideration being given to specific situations in China. ASBE covers the recognition, measurement, presentation and disclosure of most transactions and events, financial reporting, and nearly all the topics covered by current IFRS. Most of ASBE is substantially in line with the corresponding IFRS, with a more simplified form of disclosures. However, there are ASBE that do not have an IFRS equivalent, such as that on non-monetary transactions and common control business combinations, and there are certain standards that restrict or eliminate measurement alternatives that exist in IFRS. For example, the ASBE on investment property permits the use of the fair value model only when certain strict criteria are met. Whilst ASBE is not identical to IFRS, the substantive difference from IFRS is that the ASBE on impairment of assets prohibits the reversal of an impairment loss for long-lived assets in all situations.

4.4.1.B Hong Kong

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the principal source of accounting principles in Hong Kong. These include a series of Hong Kong Financial Reporting Standards, accounting standards referred to as Hong Kong

Accounting Standards (HKAS) and Interpretations issued by the HKICPA. The term 'Hong Kong Financial Reporting Standards' (HKFRS) is deemed to include all of the foregoing. While HKFRS has no direct legal force, it derives its authority from the HKICPA, which may take disciplinary action against any of its members responsible, as preparer or as auditor, for financial statements that do not follow the requirements of the pronouncements.

HKFRS was fully converged with IFRS with effect from 1 January 2005. The HKICPA Council supports the integration of its standard setting process with that of the IASB.

Although the HKICPA Council has a policy of maintaining convergence of HKFRS with IFRS, the HKICPA Council may consider it appropriate to include additional disclosure requirements in an HKFRS or, in some exceptional cases, to deviate from an IFRS. Each HKFRS contains information about the extent of compliance with the equivalent IFRS. Where the requirements of an HKFRS and an IFRS differ, the HKFRS is required to be followed by entities reporting within the area of application of HKFRS. However in practice, exceptions to IFRS are few and relate to certain transitional provisions.

4.4.2 Japan

In 2007, an agreement between the Accounting Standards Board of Japan (ASBJ), and the IASB, known as 'The Tokyo Agreement', was announced. The Tokyo Agreement advanced the gradual convergence of Japanese GAAP and IFRS, which had been taking place for a number of years. Following the initial convergence projects under this agreement, in 2008 the European Commission accepted Japanese GAAP in its markets as part of its process to accept certain GAAP as equivalent to IFRS for listing non-EU companies in a European regulated market (as defined by the European Commission). Further convergence of Japanese GAAP has continued as new standards are issued or expected to be issued. Since adoption of IFRS is being considered for consolidated financial statements only, this convergence process is expected to continue as Japanese GAAP is used by Japanese companies in their standalone financial statements.

In June 2009, the Business Advisory Council (BAC) a key advisory body to the Financial Services Agency approved a roadmap for the adoption of IFRS in Japan and the relevant related matters have subsequently been incorporated into the regulation for consolidated financial statements. The key points of this roadmap are:

- Option of voluntary adoption of IFRS from fiscal years ended after 31 March 2010 for companies with global financial or operating activities; and
- Decision on the mandatory adoption of IFRS to be made in 2012.

In June 2011, the BAC announced that if mandatory application of IFRS were to be decided, a period of five to seven years would be given for preparing for adoption. This is a longer period than proposed in the roadmap.

To date, only a handful of Japanese companies have taken the option to apply IFRS voluntarily in their financial statements, with several other Japanese companies planning to take the option in the coming years.

At the time of writing, no announcement has been made by the BAC on whether to require IFRS in Japan.

4.4.3 India

Accounting standards in India are issued by the Institute of Chartered Accountants of India (ICAI) and are 'notified' by the Ministry of Corporate Affairs (MCA) under the Companies Act, 1956 (Companies Act). The MCA had originally issued an IFRS conversion roadmap in which it had proposed a date for IFRS conversion in a phased manner from 2011. The phasing was done based on certain criteria, such as the listing status, net worth and nature of the industry. The MCA had also clarified that companies subject to the IFRS conversion roadmap would not have the option of using 'full IFRS'; rather, they would need to comply with IFRS converged standards that would be issued by the ICAI. This effectively created a separate body of accounting standards known as 'Indian Accounting Standards' (Ind-AS) to be followed by all companies registered under the Companies Act, other than non-listed companies with net worth less than the Indian Rupee equivalent of approximately US\$100 million.

At the time of writing, the MCA has notified 35 Ind-AS standards. Further, the MCA has stated that these standards will be applied in a phased manner, after resolving various issues, including tax-related ones. Therefore, Ind-AS may not apply from the dates announced in the original roadmap. At the time of writing, these dates of application are not fixed. Notified Ind-AS contains numerous departures from IFRS. The MCA felt that these departures were necessary to reflect the accounting principles, practices and economic conditions prevailing in India.

The departures from IFRS may be summarised into the following broad categories:

- Departures from IFRS that result in Ind-AS financial statements not being compliant with IFRS, when the issues addressed in those IFRS apply to an entity;
- Removal of options available under IFRS;
- Additional options provided in Ind-AS that, if selected, would result in Ind-AS financial statements not being compliant with IFRS when those additional options under Ind-AS are used by an entity; and
- Deferral or non-adoption of certain IFRS.

The Securities and Exchange Board of India (SEBI), the securities regulator in India, permits listed companies with subsidiaries to submit their consolidated financial statements in accordance with IFRS as issued by IASB. Few companies in India have availed themselves of this option.

4.5 Australia/Oceania – Australia

The standards and interpretations issued by the IASB are issued as Australian equivalents to IFRS (AIFRS) by the Australian Accounting Standards Board (AASB). These standards apply to all publicly listed companies and any entity preparing general purpose financial statements. Private entities not preparing general purpose financial statements are required to comply with all of the recognition and measurement requirements of IFRS, but are permitted to follow simplified disclosure requirements, as described below. Not-for-profit entities and public sector

organisations not preparing general purpose financial statements are required to comply with AIFRS as well as additional local requirements.

In 2010, the AASB introduced a differential reporting framework based on the IASB's definition of publicly accountable entities. When producing general purpose financial statements, non-publicly accountable entities will be able to apply Australian Accounting Standards – Reduced Disclosure Requirements (RDR). This framework will require entities to apply all of the recognition and measurement requirements of IFRS, but only a reduced number of the disclosure requirements determined on the principles adopted by the IASB in its development of the IFRS for SMEs. The mandatory application date of this framework is annual reporting periods beginning on or after 1 July 2013. Entities may apply the framework to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013.

In 2007, the Australian Auditing and Assurance Standards Board (AUASB) issued a revised auditing standard requiring the auditor to opine on the entity's compliance with IFRS (as issued by the IASB) where it has made the statement under the Australian equivalent of paragraph 16 of IAS 1 – *Presentation of Financial Statements*. This is in addition to the auditor's opinion on compliance with Australian Accounting Standards. In effect, both the reporting entity and the auditor make a statement of dual compliance with IFRS as issued by the IASB and Australian Accounting Standards. The reference to 'as issued by the IASB' is to distinguish this from other jurisdictions that refer to their standards as IFRS, e.g. IFRS as issued by the EU.

4.6 Africa – South Africa

In 2004, South Africa completed a convergence project between the standards contained within South Africa GAAP (SA GAAP) and all IFRS in issue at that time. After this convergence project, the only remaining differences between companies reporting under SA GAAP and an IFRS reporter were the legacy effects of different effective dates (between the equivalent IFRS and SA GAAP standards) and the non application of IFRS 1. Since 2004, until early 2011, all standards and interpretations that had been issued by the IASB were adopted into SA GAAP without change.

In addition to the disclosure requirements of IFRS, IFRS for SMEs and SA GAAP, the South African Companies Act and the South African securities exchange, JSE Limited (JSE) imposed certain additional disclosure requirements on reporting entities. The South African standard setter – the Accounting Practices Board (APB) – has also issued four interpretations. While these interpretations are specific to issues in the South African environment and SA GAAP, both SA GAAP and IFRS reporters in South Africa make use of them as they are based on a framework equivalent to that used for IFRS.

For all periods beginning on or after 1 January 2005, the JSE has required that all listed companies prepare financial statements under IFRS. Non-listed companies in South Africa continued to use either IFRS, IFRS for SMEs or SA GAAP as the framework for preparing their financial statements in accordance with the then Companies Act.

On 1 May 2011 a new Companies Act became effective in South Africa. Since then, different accounting frameworks apply to different categories of companies based on their 'public interest score'. Listed companies are still required to use IFRS, however other companies (depending on their public interest score) may apply IFRS, IFRS for SMEs, SA GAAP, or in certain situations entity specific accounting policies as determined by themselves.

In addition, the APB was replaced with the Financial Reporting Standards Council (FRSC) as the new standard setting body in South Africa in the second half of 2011. Further, in 2012 it was announced that SA GAAP will be withdrawn with effect for financial periods commencing on or after 1 December 2012. Hence, companies that have been reporting on SA GAAP will now have to transition to one of the remaining frameworks, which include IFRS or IFRS for SMEs.

5 SUMMARY

IFRS is now, together with US GAAP, one of the two globally recognised financial reporting frameworks. Although there remains some uncertainty as to what view the SEC will take on the role of IFRS in the US there is strong demand among policy makers and regulators for there to be just one set of high quality accounting standards recognised globally. Although the goal of a single set of high quality global accounting standards has not yet been fulfilled, given the number of countries that have adopted or converged with IFRS or have plans to in the future, it is safe to say that IFRS has become 'International GAAP'.

However, for there to be a truly International GAAP it is necessary that there is consistent application, interpretation and regulation of those standards to mirror the processes that have traditionally supported national GAAPs. Whilst complete consistency does not exist today, many mechanisms to achieve it are in place. The Interpretations Committee plays a key role not just through its interpretations but also through its agenda decisions. In the Strategy Review, the Trustees propose a number of ways to help ensure consistent application of IFRS, including working with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify areas of divergence.⁶⁰ We agree that the IFRS Foundation needs to focus on discouraging local interpretations of IFRS and support the proposals to involve regulators in the process.

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