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# Chapter 1                      International GAAP

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# 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 was 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. 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.

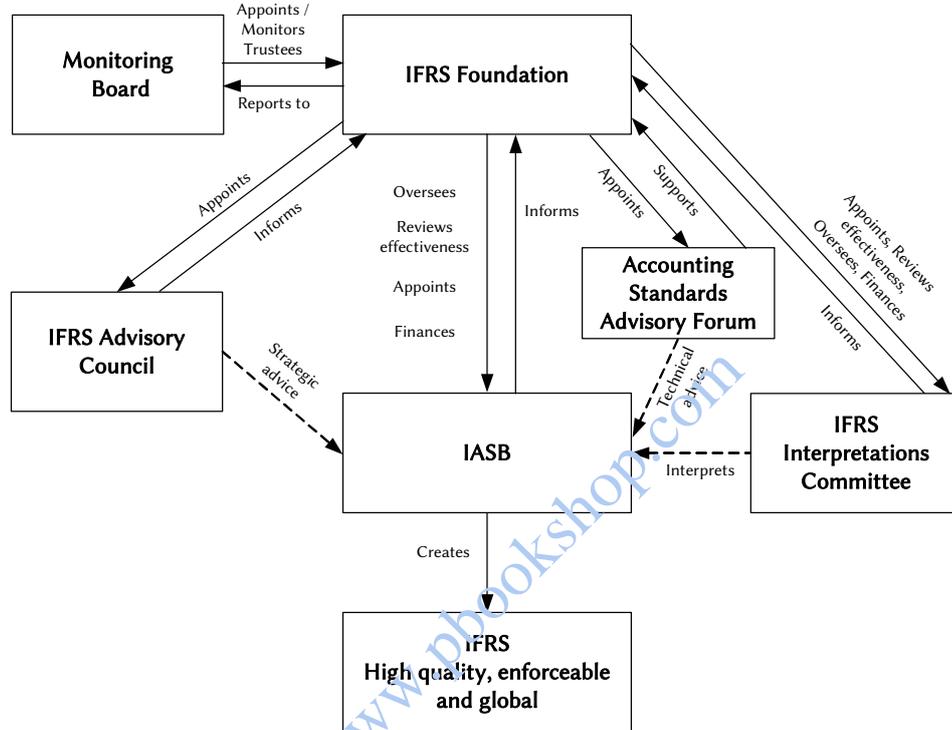
Notwithstanding these anticipated benefits, it has only been since 2000 that there has been a serious effort made toward such global standards. This came about largely as a result of the European Commission's announcement in June 2000 that it would present proposals to introduce the requirement that all listed European Union (EU) companies report in accordance with International Accounting Standards by 2005. This requirement not only changed the face of European financial reporting, but global reporting as well after many other countries followed Europe's lead. Indeed, the IFRS Foundation reports that 144 jurisdictions require IFRS standards for all or most domestic publicly accountable entities (listed companies) in their capital markets.<sup>1</sup>

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.

## 2 THE IFRS FOUNDATION AND THE IASB

### 2.1 The standard-setting structure

The diagram below illustrates the structure within which standards are set by the International Accounting Standards Board (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); and
- 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).

## 2.2 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).<sup>2</sup> Section 17 of the Constitution requires a review, every five years, of the structure and effectiveness of the IFRS Foundation. The last review was completed in 2016 and, as a result, the Constitution was revised in the same year. In addition, in October 2018, the Trustees approved a narrow-scope amendment to the IFRS Foundation's Constitution to extend the term of the Trustee Chair and Vice-Chairs up to a maximum of nine years, taking into account any previous term already served as Trustee, Vice-Chair or Chair, as the case may be. The Trustees also approved an amendment to allow for the Trustee Chair to be appointed from among the Trustees or to be recruited externally. This amendment to the Constitution came into effect on 1 December 2018.<sup>3</sup>

It is a requirement of the Constitution that, in order to ensure a broad international basis, there must be:<sup>4</sup>

- six Trustees appointed from the Asia/Oceania region;
- six Trustees appointed from Europe;
- six Trustees appointed from the Americas;
- one Trustee appointed from Africa; and
- three 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 at 2.3 below. The appointment of the Trustees is normally for a term of three years, renewable once.<sup>5</sup>

The Constitution requires that the Trustees comprise individuals that, as a group, provide a balance of professional backgrounds, and have an interest in promoting and maintaining transparency in corporate reporting globally. This includes individuals with global experience at a senior level in securities market regulators, firms representing investors, international audit networks, preparers, users, academics and officials serving the public interest. To achieve such a balance, Trustees are selected after consultation with the accounting and audit profession, the securities market and other public interest bodies, regulators, investors, 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.<sup>6</sup>

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'.<sup>7</sup>

The Trustees are responsible also for appointing the members of the IASB, Interpretations Committee, IFRS Advisory Council (the Advisory Council)<sup>8</sup> and the Accounting Standards Advisory Forum (ASAF).<sup>9</sup> In addition, their duties include the following:<sup>10</sup>

- appointing the Executive Director, in consultation with the IASB Chair, and establishing his or her contract of service and performance criteria;
- reviewing annually the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- assuming responsibility for establishing and maintaining appropriate financing arrangements;
- 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, provided that the Trustees are excluded from involvement in technical matters relating to financial reporting standards;
- establishing or amending operating procedures for the Trustees;
- establishing and amending operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council and reviewing their compliance;
- 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 and subject to the voting requirements given in the Constitution;
- exercising all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council;
- fostering and reviewing the development of educational programmes and materials that are consistent with the IFRS Foundation's objectives; and
- publishing an annual report on the IFRS Foundation's activities, including audited financial statements and priorities for the coming year.

The IFRS Foundation's funding is derived primarily from voluntary contributions from jurisdictions that have put in place national financing regimes. While funding mechanisms differ, most jurisdictions have established either a levy on companies or a system of publicly supported financing. The IFRS Foundation is continuing its work towards a global funding system characterised by a long-term commitment by jurisdictions, public sponsorship (either direct or implicit governmental or regulatory support), flexibility, proportionally allocated contributions and public accountability in the budget process.<sup>11</sup> In 2017, the major funders of the IFRS Foundation were the international accounting firms, the European Commission, Japan and China.<sup>12</sup>

### **2.3 The Monitoring Board**

The Monitoring Board was created to address a perceived lack of accountability and responsiveness by the IASB and the IFRS Foundation to the concerns of its constituents.

The Monitoring Board provides 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.<sup>13</sup>

The Charter of the Monitoring Board notes that the Monitoring Board's mission is:<sup>14</sup>

- 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.

The responsibilities of the Monitoring Board are to:<sup>15</sup>

- 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; and
- 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.

At the time of writing, the Monitoring Board comprises representatives of:<sup>16</sup>

- the IOSCO Board;
- the Securities and Exchange Commission (SEC), United States of America;
- the European Commission;
- the Financial Services Agency, Japan;
- the IOSCO Growth and Emerging Markets Committee;
- the Comissão de Valores Mobiliários, Brazil;
- the Financial Services Commission, Republic of Korea;
- the Ministry of Finance, People's Republic of China;
- the Basel Committee on Banking Supervision (observer);
- the IOSCO Africa and Middle-East Regional Committee (observer); and
- the IOSCO Inter-American Regional Committee (observer).

The current chairman is the representative of the IOSCO Board.

Membership of the Monitoring Board is assessed based on the following criteria:<sup>17</sup>

- the member must be a capital market authority responsible for setting the form and content of financial reporting in its jurisdiction;
- the jurisdiction has made a clear commitment to moving towards application of IFRS and promoting global acceptance of a single set of high-quality international accounting standards as the final goal;
- the IFRS standards to be applied should be essentially aligned with IFRS standards developed by the IASB;
- the jurisdiction can be regarded as a major market for capital-raising based on the size of market capitalization, the number of listed companies and capital market activity;
- the jurisdiction makes financial contributions to setting IFRS;
- the jurisdiction has a robust enforcement mechanism to ensure proper implementation of relevant accounting standards; and
- the relevant national or regional standard-setting body is committed to contributing actively to the development of IFRS.

Historically the motivation for the use of IFRS was to facilitate cross-border capital raising and, therefore, the membership of the Monitoring Board was focused on capital markets authorities that were committed to the development of high-quality global accounting standards. While this continues to be a criterion for membership, beginning with the 2016 review of its members, the Monitoring Board will evaluate the integration of IFRS for domestic issuers in that member's jurisdiction.<sup>18</sup>

#### **2.4 The International Accounting Standards Board (IASB)**

The members of the IASB are appointed by the Trustees.<sup>19</sup> Currently, the IASB comprises 14 members as required by the Constitution. The main qualifications for membership of the IASB are professional competence and recent relevant professional experience.<sup>20</sup>

The Trustees are required to select IASB members so that the IASB, as a group, will comprise the best available combination of technical expertise and diversity of international business and market experience, including auditors, preparers, users, academics and market and/or financial regulators. No individual should be both a Trustee and a member of the IASB at the same time.<sup>21</sup> 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.<sup>22</sup>

The IASB will normally be required to comprise:<sup>23</sup>

- four members from Asia/Oceania;
- four members from Europe;
- four members from the Americas;
- one member from Africa; and
- one member appointed from any area, subject to maintaining overall geographical balance.

The responsibilities of the IASB are listed in Section 36 of the Constitution. Its primary role is to have complete responsibility for all IASB technical matters including preparing and issuing IFRS standards (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.<sup>24</sup>

Approval by at least eight 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 14 members of the IASB. If there are 14 members, approval is required by at least nine members.<sup>25</sup> Other decisions of the IASB, including the publication of a discussion paper, require a simple majority of the members present at a meeting that is attended by at least 60% of the members.<sup>26</sup> 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 five years in developing its technical agenda.<sup>27</sup> The most recent agenda consultation took place in August 2015. In November 2016, the IASB published the *IASB® Work Plan 2017-2021 (Feedback Statement on the 2015 Agenda Consultation)* on its agenda consultation and its five-year plan. The IASB adopted a central theme for its activities: 'Better Communication in Financial Reporting'.<sup>28</sup>

The IASB meets monthly, but not in August. These meetings are open to the public and meeting materials are available on the IASB's website.

## 2.5 The IFRS Interpretations Committee (the Interpretations Committee)

For IFRS to be truly global standards, consistent application and interpretation is required. The objectives of the Interpretations Committee are to interpret the application of IFRS, provide timely guidance on financial reporting issues that are not specifically addressed in IFRS and undertake other tasks at the request of the IASB.<sup>29</sup>

The national accounting standard-setting bodies and regional bodies involved with accounting standard-setting are normally consulted on issues referred to the Interpretations Committee.<sup>30</sup> The Interpretations Committee is expected to address issues:<sup>31</sup>

- (a) that have widespread effect and have, or are expected to have, a material effect on those affected;
- (b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and
- (c) that can be resolved efficiently within the confines of existing IFRS standards and the *Conceptual Framework for Financial Reporting*;

In addition to developing interpretations, the Interpretations Committee develops minor or narrow scope amendments, including 'Annual Improvements'. 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.

If the Interpretations Committee does not plan to add an item to its work programme, it publishes a tentative rejection notice in the *IFRIC Update* and on the IFRS Foundation website and requests comments on the matter. The comment period for rejection notices is normally at least 60 days. After considering comments received, the Interpretations Committee will either confirm its decision and issue a rejection notice, add the issue to its work programme or refer the matter to the IASB. Rejection notices do not have the authority of IFRS standards and, therefore, do not provide mandatory requirements. However, they should be seen as helpful, informative and persuasive. The IASB does not ratify rejection notices.<sup>32</sup>

The Interpretations Committee has 14 voting members. The chair, who is appointed by the Trustees, is a member of the IASB, the Director of Technical Activities or an 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.<sup>33</sup> Currently, the Basel Committee on Banking Supervision, European Commission and IOSCO have observer status. The quorum for a meeting is 10 members,<sup>34</sup> and approval of draft or final interpretations requires that not more than four voting members vote against the draft or final interpretation.<sup>35</sup>

The Interpretations Committee meets six times a year. All technical decisions are taken at sessions that are open to public observation. The Interpretations Committee supports the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the IFRS framework.<sup>36</sup> Although the Interpretations Committee develops interpretations, because they are part of the respective IFRS standards, they must be ratified by the IASB.<sup>37</sup>

### 2.5.1 *Agenda decisions*

In December 2018, the Board discussed the timing of application of accounting policy changes that result from an agenda decision published by the Interpretations Committee and confirmed its view that it expects companies to be entitled to sufficient time to implement changes in accounting policy. The Board also proposed that its view be added to the *Due Process Handbook* (the Handbook).<sup>38</sup> See 2.6.1 below for a discussion on the proposed amendments to the Handbook.

In March 2019, the Board further explained its position on agenda decisions. Firstly, the Board acknowledged that agenda decisions often provide new information that should be seen as helpful and persuasive. It follows that a company did not make an error simply because its application of IFRS was inconsistent with an agenda decision. Secondly, regarding how quickly companies are expected to implement an accounting policy change that results from an agenda decision, the Board formally acknowledged that it may take time to implement such an accounting policy change. The Board believes that this reflects its expectations of what is reasonable for preparers, assists companies in implementing any such change, and ultimately supports consistent application of IFRS by facilitating accounting policy changes. What constitutes 'sufficient time' would

depend on the particular facts and circumstances, taking into account the accounting policy change and the reporting entity and would require judgement. What the Board had in mind was ‘a matter of months rather than years’. However, it is not expected that sufficient time would include the time needed to undertake related steps, such as changing affected covenants in documents nor the time to wait to see whether any of the Board’s projects could remove the need to make an accounting policy change (to avoid two changes in accounting in a short period of time).<sup>39</sup> The Board also made it clear that companies need to consider agenda decisions and implement any necessary accounting policy changes on a timely basis (i.e. as soon and as quickly as possible). If necessary, companies should be in a position to explain their implementation process and, if material, consideration should be given to whether disclosure related to the accounting policy change is required.<sup>40</sup>

## 2.6 The Due Process Handbook

The Trustees’ Due Process Oversight Committee (DPOC) is responsible for overseeing the due process procedures of the IASB and Interpretations Committee throughout all the development stages of a standard or an interpretation, including agenda-setting and post-implementation reviews (PIRs).<sup>41</sup>

The Handbook describes the due process requirements of the IASB and Interpretations Committee.<sup>42</sup> The requirements are built on the following principles:<sup>43</sup>

- transparency – the IASB conducts its standard-setting process in a transparent manner;
- full and fair consultation – considering the perspectives of those affected by IFRS globally; and
- accountability – the IASB analyses the potential effects of its proposals on affected parties and explains the rationale for why it made the decisions it reached in developing or changing a standard.

In order to gain a wide range of views from interested parties throughout all stages of the development of IFRS, the Trustees and the IASB have established consultative procedures with the objective of ensuring that, in exercising its independent decision-making, the IASB conducts its standard-setting process in a transparent manner.<sup>44</sup> The Trustees of the IFRS Foundation published an updated version of the Handbook in June 2016 which includes an enhanced due process for the development and maintenance of the IFRS Taxonomy.<sup>45</sup> The Handbook specifies some minimum steps that the IASB and the Interpretations Committee are required to follow before a standard or interpretation can be issued.<sup>46</sup> The following due process steps are mandatory:<sup>47</sup>

- debating any proposals in one or more public meetings;
- exposing for public comment a draft of any proposed new standard, proposed amendment to a standard or proposed interpretation with minimum comment periods;
- considering in a timely manner those comment letters received on the proposals;
- considering whether the proposals should be exposed again;
- reporting to the IFRS Advisory Council (see 2.7 below) on the technical programme, major projects, project proposals and work priorities; and
- ratification of an interpretation by the IASB.

The steps specified in the Constitution that are ‘non-mandatory’ include:<sup>48</sup>

- publishing a discussion document (for example, a discussion paper) before an exposure draft is developed;
- establishing consultative groups or other types of specialist advisory groups;
- holding public hearings; and
- undertaking fieldwork.

If the IASB decides not to undertake any of the non-mandatory steps, it is required to inform the DPOC of its decision and reason (known as the ‘comply or explain’ approach). Those explanations must be published in the decision summaries and in the basis for conclusions with the exposure draft or IFRS in question.<sup>49</sup>

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

The IASB normally allows a minimum period of 120 days for comment on an exposure draft. If the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC.<sup>50</sup>

Under a ‘fast track’ comment process, if the matter is exceptionally urgent, and only after formally requesting and obtaining prior approval from 75% of the Trustees, ‘the IASB may reduce the period for public comment on an exposure draft to below 30 days but may not dispense with a comment period’.<sup>51</sup>

### *2.6.1 Proposed amendments to the Handbook*

The DPOC commenced a review of the Handbook in November 2017. The objectives of the review are to update the Handbook in line with the Board’s and the Interpretations Committee’s developing due process conventions, relating particularly to effects analyses and agenda decisions.<sup>52</sup> In April 2019, an exposure draft for the proposed amendments to the Handbook was released and the comment letter period was closed in July 2019. The main proposed amendments to the Handbook are to:<sup>53</sup>

- update the procedures relating to effect analysis;
- clarify the role and status of agenda decisions published by the Committee;
- provide the Board with the ability to publish its own agenda decisions;
- reflect that entities should be entitled to sufficient time to consider an agenda decision and if necessary, implement an accounting policy change;
- refine the categorisation and review of educational material produced by the IFRS Foundation;
- refine the consultation required before adding major projects to the Board’s work plan; and
- clarify the DPOC’s oversight of the IFRS Taxonomy due process and bring greater clarity to the approval and review process associated with the issuance and publication of IFRS Taxonomy updates.

The review of the exposure draft feedback was, at the time of writing, due in October 2019.<sup>54</sup>

## 2.7 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:

- provide input on the IASB's agenda, project timetable and project priorities; and
- give advice on projects, with emphasis on application and implementation issues, including matters that may warrant the attention of the Interpretations Committee.<sup>55</sup>

A secondary objective of the Advisory Council is 'to encourage broad participation in the development of IFRS as high-quality, globally-accepted standards.'<sup>56</sup>

The Advisory Council comprises thirty or more members, having a diversity of geographical and professional backgrounds. 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.<sup>57</sup> The Advisory Council normally meets at least two times a year, and its meetings are open to the public. It is required to be consulted by the IASB in advance of the IASB's decisions on major projects and by the Trustees in advance of any proposed changes to the Constitution.<sup>58</sup>

Members are appointed for an initial term of three years and may be asked to remain for up to three additional years.<sup>59</sup>

## 2.8 Accounting Standards Advisory Forum (ASAF)

The ASAF, established in 2013, is an advisory group consisting of national accounting standard-setters and regional bodies, the purpose of which is to provide technical advice and feedback to the IASB.

The membership of the ASAF consists of 12 non-voting members (appointed by the Trustees), plus the chair, who is the IASB chair or vice-chair. To ensure a broad geographical representation, the members are from the following geographic regions:<sup>60</sup>

- one member from Africa;
- three members from the Americas (North and South);
- three members from the Asia/Oceania region;
- three members from Europe (including non-EU); and
- two members appointed from any area of the world at large, subject to maintaining overall geographic balance.

The ASAF meets four times a year, and its meetings are open to the public.

The objective of the ASAF is 'to provide an advisory forum where members can constructively contribute towards the achievement of the IASB's goal of developing globally accepted high-quality accounting standards.' The ASAF was established to:<sup>61</sup>

- support the IFRS Foundation in its objectives, and contribute towards the development, in the public interest, of a single set of high quality understandable, enforceable and globally accepted financial reporting standards to serve investors and other market participants in making informed resource allocations and other economic decisions;
- formalise and streamline the IASB's collective engagement with the global community of national standard-setters and regional bodies in its standard setting

process to ensure that a broad range of national and regional input on major technical issues related to the IASB's standard setting activities are discussed and considered; and

- facilitate effective technical discussions on standard-setting issues, primarily on the IASB's work plan but which may include other issues that have major implications for the IASB's work, in sufficient depth, with representatives at a high level of professional capability and with a good knowledge of their jurisdictions/regions.

As required by the ASAF's Terms of Reference, the Trustees completed their second review of the ASAF in 2018, following the first review undertaken in 2015. There was very positive feedback from the review, highlighting that the ASAF continues to be a key component of the IFRS Foundation's engagement strategy with national standard-setters. Actions taken following the 2015 review have resulted in positive change and there were improvements made to the 'feedback loop' between the Board and the ASAF. As a result of the review, the Trustees have decided not to incorporate consultation with the ASAF as a mandatory due process step in the Handbook. The Trustees also found no compelling reason to amend the Constitution to incorporate an explicit reference to the ASAF. The Trustees are amending the Terms of Reference to permit one ASAF meeting a year to be held via videoconference. In addition, the Trustees decided that formal three-yearly reviews of ASAF are no longer necessary and will amend the ASAF Terms of Reference accordingly.<sup>62</sup>

## 2.9 Other advisory bodies

In addition to the Advisory Council and the ASAF, discussed in 2.7 and 2.8 above, respectively, above, the IASB has a number of other formal advisory bodies that provide input on its work and resources to consult. Meetings with the advisory bodies are held in public and meeting materials are available on the IASB's website.

The IASB's other advisory bodies are as follows:<sup>63</sup>

- Capital Markets Advisory Committee – provides the IASB with regular input from the international community of users of financial statements;
- Emerging Economies Group – enhances the participation of emerging economies in the development of IFRS standards;
- Global Preparers Forum – provides the IASB with input from companies preparing financial statements;
- IFRS Taxonomy Consultative Group – helps develop the IFRS Taxonomy;
- Islamic Finance Consultative Group – focuses on potential challenges in applying IFRS to Shariah-compliant instruments and transactions;

- SME Implementation Group – supports the international adoption of the *IFRS for SMEs* and monitors its implementation;
- World Standard-setters Conferences –helps achieve the G20-endorsed objective of global accounting standards;
- Transition Resource Group for IFRS 17 Insurance Contracts – aids the implementation of IFRS 17 – *Insurance Contracts*;
- Transition Resource Group for Revenue Recognition – supports the implementation of IFRS 15 – *Revenue from Contracts with Customers*;
- Consultative Group for Rate Regulation – informs the project on rate regulation; and
- Management Commentary Consultative Group – informs the project on management commentary.

## 2.10 Cooperation with other standard-setters

The IFRS Foundation acknowledges that developing high-quality IFRS standards hinges on collaboration. In order to achieve its objective to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards, the IFRS Foundation cooperates with other standard-setters. In its 2018 annual report, the IFRS Foundation identified the following standard setters as stakeholders:<sup>64</sup>

- International Actuarial Association (IAA) – the IAA and the IFRS Foundation signed a memorandum of understanding in April 2015. Among others, the IAA is committed to providing input, as appropriate, to the IASB on proposed amendments to IFRS standards and developments in financial reporting that are relevant to the areas on which actuaries advise;<sup>65</sup>
- International Federation of Accountants (IFAC) – the IFAC and the IFRS Foundation signed a memorandum of understanding in March 2015 under which both parties will continue to liaise to identify opportunities to work together and support one another's public interest objectives;<sup>66</sup>
- International Integrated Reporting Council (IIRC) – the IIRC and IFRS Foundation signed a memorandum of understanding in November 2014, based on which they will work proactively with each other to identify ways and means by which Integrated Reporting and financial reporting standards can be aligned to strengthen corporate reporting;<sup>67</sup> and
- International Valuation Standards Council (IVSC) – the memorandum of understanding signed between the IVSC and the IFRS Foundation in March 2014 highlighted the co-operation between the parties to ensure that standards and guidance developed by the IVSC on the measurement of fair value is consistent, where appropriate, with IFRS (for example IFRS 13 – *Fair Value Measurement*) and is comprehensive and well-developed.<sup>68</sup>

### 3 THE IASB'S TECHNICAL AGENDA AND CONVERGENCE WITH US GAAP

#### 3.1 The IASB's current priorities and future agenda

The IASB's 2019 activities focused on:<sup>69</sup>

- developing a new accounting model to give users of financial statements better information about a company's incremental rights and obligations arising from its rate-regulated activities;
- exploring how companies should account for combinations of businesses under common control. Such transactions are outside the scope of IFRS 3 – *Business Combinations* – and accounted for in different ways;
- exploring whether the Board can develop an accounting model that will enable investors to understand a company's dynamic risk management activities and to evaluate the effectiveness of those activities;
- deciding the direction of the Financial Instruments with Characteristics of Equity project;
- investigating improvements to IFRS 3 and IAS 36 – *Impairment of Assets* – after feedback from the Post-implementation Review of IFRS 3;
- developing improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance; and
- addressing research findings about accounting policy disclosures, the implications of technology on financial reporting as part of the IFRS Foundation's broader work in this area, and the use of performance measures in financial statements in its Primary Financial Statements project.

At the time of writing, the IASB's work plan reflects that work on a number of these projects will continue into 2020 and beyond.

The IASB conducted its most recent agenda consultation in August 2015, the outcome of which set the technical priorities until 2021. The work plan has been revised in response to feedback received during the agenda consultation. The IASB has adopted the theme 'Better Communication in Financial Reporting' and much of the work will focus on making the financial information more relevant and improving the communication of that information.

#### 3.2 IFRS/US GAAP convergence

'Convergence' is a term used to describe the coming together of national systems of financial reporting and IFRS. Between 2002 and 2013, the IASB and FASB had various projects to both improve IFRS and US GAAP, respectively, and to achieve their convergence. In addition, the US Securities and Exchange Commission (SEC) have taken some steps towards the acceptance of IFRS in the US. In 2007, the SEC began permitting foreign private issuers to file IFRS financial statements without reconciliation to US GAAP. In 2008, the SEC set out a proposed roadmap outlining the milestones and conditions that, if met, could lead to the use of IFRS in the US by domestic registrants. In 2011, the SEC staff issued a work plan to explore the incorporation of IFRS into the US financial reporting system. The SEC staff has since published its final report on the IFRS work plan that raised significant concerns about the further incorporation of IFRS in the US capital markets.

In 2013, the convergence process between the IASB and the FASB largely came to an end. One of the messages the IASB staff received from respondents outside of the US to the 2011 agenda consultation was for the IASB to consider whether convergence should continue to be a priority. Ultimately, developing ‘a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards’ has largely superseded convergence as a significant driver of the IASB’s agenda setting process. In fact, the Handbook, which was revised in 2013, removed convergence from the list of factors that are influential in setting the agenda.

## 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. Some have adopted full IFRS, i.e. IFRS as issued by the IASB. Other jurisdictions have converged, or have a plan to converge, their standards with IFRS.

An entity is required to apply IFRS 1 – *First-time Adoption of International Financial Reporting Standards* – when it first asserts compliance with IFRS. 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.

The following table summarises IFRS adoption (generally for consolidated financial statements) in jurisdictions with domestic market capitalisation exceeding US\$500 billion as at 30 June 2019. For further details on selected locations, see 4.2 to 4.6 below. In addition, the IFRS Foundation is developing profiles of application of IFRS. At the time of writing, profiles for 166 jurisdictions have been completed and are available on the IASB’s website.

Jurisdiction	IFRS Status	IFRS Permitted
<b>Australia</b>	Required for all publicly accountable entities, and any entity preparing general purpose financial statements that elects not to apply the framework under the Reduced Disclosure Regime (RDR). Non-publicly accountable reporting entities are required to apply IFRS recognition and measurement requirements, but can provide simplified disclosures under the RDR. Non-reporting entities may prepare special purpose financial statements.	
<b>Brazil</b>	Required for regulated public companies, with exemptions for banks and real estate companies; other companies must follow converged national standards.	
<b>Canada</b>	Required for publicly accountable entities.	Permitted for all other entities.
<b>Mainland China</b>	Substantially converged national standards.	

<b>Jurisdiction</b>	<b>IFRS Status</b>	<b>IFRS Permitted</b>
<b>European Union</b>	IFRS as adopted by the EU (EU IFRS – see 4.2.1 below) 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 GAAPs 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 and in separate financial statements.
<b>France</b>	See European Union.	EU IFRS permitted for the consolidated financial statements of non-listed entities.
<b>Germany</b>	See European Union.	EU IFRS permitted for the consolidated financial statements of non-listed entities.
<b>Hong Kong</b>	HKFRS (converged with IFRS) is required for all Hong Kong incorporated companies (listed and non-listed).	Permitted for listed companies incorporated overseas.
<b>Indonesia</b>	Indonesian Statements of Financial Accounting Standards (PSAK), which is adopted from IFRS, is required to be used for general purpose financial statements of all publicly accountable entities (listed and non-listed). PSAK is 1-2 years delayed in its adoption of IFRS. Entities without public accountability (similar to small and medium-sized enterprises) have an option to use Financial Accounting Standards for Entities Without Public Accountability for their general purpose financial statements. Entities that have syariah or Islamic accounts and transactions are required to use the Indonesian Syariah Accounting Standards.	
<b>India</b>	IFRS converged Indian Accounting Standards (Ind AS), with some mandatory and numerous optional departures from IFRS, to apply in phases from financial years beginning on or after 1 April 2016.	Until Ind AS was introduced, listed companies with subsidiaries were permitted to apply IFRS in consolidated financial statements. This option is no longer available.
<b>Italy</b>	See European Union. EU IFRS is required in the separate financial statements of companies on the Italian regulated stock exchange except insurance companies. Scope of EU IFRS extended to certain financial institutions.	EU IFRS permitted in the statutory separate and consolidated financial statements of all other non-listed entities and non-regulated enterprises (except SMEs).
<b>Japan</b>	Mandatory adoption has been put on hold for the time being.	Permitted for most companies that are listed or planning to be listed on a domestic stock exchange.
<b>Korea</b>	IFRS as adopted by Korea without modification (K-IFRS) is required for all listed entities, unlisted financial institutions and state-owned entities.	K-IFRS permitted for non-listed entities.

<b>Russia</b>	Required for banks, insurance entities, non-state pension funds, clearing institutions, certain investment management entities, listed companies and for some state unitary enterprises and state-owned public joint-stock companies. Substantially converged national standards applicable to stand-alone financial statements.	
<b>Saudi Arabia</b>	IFRS (as adopted by the local regulators – mainly with some additional disclosure requirements) is required for banks, insurance companies and listed entities.	Non-listed entities have the option to adopt either full IFRS or IFRS for SMEs. Self-regulated entities can choose, but are not required, to adopt IFRS.
<b>Singapore</b>	Singapore incorporated entities listed on the Singapore Exchange are required to file financial statements prepared in accordance with converged national standards equivalent to IFRS (Singapore Financial Reporting Standards (International) – SFRS(I)). Foreign entities that are listed on the Singapore Exchange are required to file financial statements prepared in accordance with SFRS(I), IFRS or US GAAP.	Singapore incorporated entities are permitted to file IFRS financial statements with approval.
<b>South Africa</b>	Required for all listed companies. From December 2012, non-listed companies generally use either IFRS or IFRS for SMEs.	
<b>Spain</b>	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.
<b>Switzerland</b>	Issuers of equity securities that are incorporated in Switzerland and listed under the International 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.
<b>Taiwan</b>	Standards and interpretations endorsed by the local regulators apply for financial statements beginning on or after 1 January 2017. The effective dates for standards and interpretations for Taiwan IFRS are mostly aligned with global effective dates; however, early adoption is generally not permitted.	IFRS permitted for foreign issuers, with reconciliation to 'Taiwan-IFRS'.

Jurisdiction	IFRS Status	IFRS Permitted
<b>Thailand</b>	Domestic companies in Thailand have to adopt Thai Accounting Standards. Thai Accounting Standards are substantially converged with IFRS standards, though the financial instruments standards and the leases standard that are part of IFRS standards have not yet been adopted. These standards will be effective in Thailand in 2020. Normally, the effective date of Thai Accounting Standards which are translated from IFRS will be effective 1 year later than the effective date of the respective IFRS.	IFRS permitted for foreign companies.
<b>United Kingdom</b>	See European Union. In addition, EU IFRS is mandatory when a company admitted to the UK Alternative Investment Market (AIM) is incorporated in the European Economic Area (EEA) unless such company is not a parent.	EU IFRS permitted for all companies, except in the charities sector; restrictions on reversion to local GAAP once an entity has adopted EU IFRS.
<b>United States</b>	Substantial convergence of selected standards.	Permitted for foreign private issuers preparing financial statements in accordance with IFRS as issued by the IASB. There is no endorsement process in the US.

## 4.2 Europe

### 4.2.1 EU

In July 2002, the European Parliament adopted Regulation No.1606/2002 (the Regulation), which required publicly traded EU incorporated companies<sup>70</sup> 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 companies are listed. An analysis of the implementation of the Regulation published in 2012 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.<sup>71</sup>

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 they 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 (ECB), 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.<sup>72</sup>

The European Commission is advised on IFRS by the European Financial Reporting Advisory Group (EFRAG). In addition to EFRAG, the European Commission seeks approval from its member states through the Accounting Regulatory Committee. EFRAG is a private sector body established by the European organisations prominent in European capital markets, e.g. Accountancy Europe 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. EFRAG plays a proactive role issuing discussion papers, field-test reports and feedback statements on outreach events. The objective of the proactive work is to involve European stakeholders at an early stage in identifying necessary improvements to financial reporting to influence the IASB. EFRAG's activities also include assessments of whether the IASB's proposals and IFRS requirements are conducive to the European public good. This includes the interaction with economic concerns, such as financial stability and growth.

The EFRAG Board includes, in equal numbers, representatives of European stakeholder organisations and national standard setters and is led by the President of the EFRAG Board, who is nominated by the European Commission. The EFRAG Board is responsible for all EFRAG positions and operates on the basis of a consensus-based decision-making process with the objective of Europe speaking with one voice. The European Commission, the European supervisory authorities and the ECB participate in the EFRAG Board in an observer capacity. The EFRAG Board takes all its decisions

after considering the advice of the EFRAG Technical Expert Group and the results of EFRAG's due process, and after hearing from the Accounting Regulatory Committee and making all assessments deemed relevant from the political perspective.

Concerns have been expressed about the EU endorsement process but to date, apart from the carve out from IAS 39 – *Financial Instruments: Recognition and Measurement* – and the decision not to endorse IFRS 14 – *Regulatory Deferral Accounts*,<sup>73</sup> all IASB standards which are currently effective have ultimately been endorsed. However, there are standards and a number of Interpretations Committee interpretations that have had delayed application dates. The most notable is the effective date for IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosure of Interests in Other Entities*, IAS 27 – *Separate Financial Statements* – and IAS 28 – *Investments in Associates and Joint Ventures* – for which the European Commission permitted a one-year deferral to the mandatory effective date set by the IASB. Another departure from the requirements of IASB standards arose from the endorsement of Applying IFRS 9 – *Financial Instruments* – with IFRS 4 – *Insurance Contracts* (Amendments to IFRS 4) as the regulation contains an additional deferral option not included in the original standard.<sup>74</sup>

A financial conglomerate is allowed to elect that none of its entities operating in the insurance sector apply IFRS 9 – *Financial Instruments* in the consolidated financial statements for financial years beginning before 1 January 2021 when certain conditions are met. The European Commission added this deferral option as it considers that the amendments to IFRS 4 – *Insurance Contracts* – are not sufficiently broad in scope to meet the needs of all significant insurance entities in the EU especially when those are operating within a financial conglomerate.

In 2014, the European Commission started an evaluation of the Regulation on the application of IFRS to assess whether:

- the Regulation achieved its objective in an efficient and effective manner;
- the criteria that all new IFRS should meet to become EU law are appropriate and whether the process for adoption of standards works properly; and
- the governance structure of the bodies developing the standards and advising the European Commission is appropriate.

The evaluation mainly included a public consultation, an informal expert group, and a review of literature on the impact of the mandatory adoption of IFRS in the EU and on the performance of IFRS during the financial crisis. The results were included in a report issued in 2015. The key findings showed that IFRS was successful in creating a common accounting language for capital markets and that there is still no well-defined alternative to IFRS. The evidence from the evaluation also showed that the objectives of the Regulation remain relevant. Companies that responded to the public consultation were mostly positive about their experience of using IFRS and in most cases, benefits outweighed costs. Investors also largely supported IFRS for improving the transparency and comparability of financial statements. Most stakeholders considered that the process through which IFRS become part of EU law works well.

However, the report identified room for improvement in some areas. Amongst others, it was noted that the coherence of standards with EU laws should continue to be assessed during standard development and endorsement. In addition, the European Commission

announced that it will look at whether the powers of the European supervisory authorities are sufficient and will consider measures to simplify the endorsement process. Furthermore, the European Commission suggested that the IASB strengthen its impact analysis and consider the needs of long-term investors when developing standards.

On 31 January 2018, the High-Level Expert Group (HLEG) on Sustainable Finance, established by the European Commission, published its final report setting out strategic recommendations for a financial system that supports sustainable investments.<sup>75</sup>

In this report, the HLEG recommends the European Commission to change the Regulation:

- 'to specify that international accounting standards should only be adopted if they are conducive to the European public good, including its sustainability and long-term investment objectives; and
- to provide the power to the EU to adjust specific aspects of IFRS standards adopted by the IASB before transposing them into EU law. This would remove the anomaly of the EU being the only constituency currently forgoing such a possibility and can be confined to cases where key overarching EU policy goals would otherwise be compromised.'

Reference to the HLEG report has been made when the European Commission launched in March 2018 a consultation document *Fitness Check on the EU Framework for Public Reporting by Companies* (the Consultation Document) which generally sought stakeholder views on whether the EU framework for public reporting by companies is fit for purpose.<sup>76</sup> The objectives of this fitness check were:

- to assess whether the EU public reporting framework is overall still relevant for meeting the intended objectives, adds value at the European level, is effective, internally consistent, coherent with other EU policies, efficient and not unnecessarily burdensome;
- to review specific aspects of the existing legislation as required by EU law; and
- to assess whether the EU public reporting framework is fit for new challenges (such as sustainability and digitalisation).

The Consultation Document stated that the above-mentioned European Commission's evaluation of the Regulation in 2015 showed that the use of IFRS in the EU has significantly increased the credibility of IFRS and its use worldwide.

However, the current level of commitment to IFRS by third country jurisdictions would differ significantly and that very few of the major capital markets and large jurisdictions have made the use of IFRS as issued by the IASB mandatory. The European Commission then concluded that as a result, the level of global convergence achieved were sub-optimal compared to the initial objective on global use. The Consultation Document also addressed the issue that the current endorsement process would prevent the EU from modifying the content of the standards issued by the IASB. The European Commission claimed this fact had raised concerns, citing the report of the HLEG, that this lack of flexibility would prevent the EU from reacting if these standards were to pose an obstacle to broader EU policy goals such as long-term investments and sustainability. The questionnaire in the Consultation Document therefore asked respondents whether it is still appropriate that the Regulation prevents the European

Commission from modifying the content of IFRS, given the different levels of commitment to require IFRS as issued by the IASB around the globe. Responses were due by July 2018; in October 2018 the European Commission published a summary report of the contributions to the public consultation.<sup>77</sup>

Stakeholders from 23 Member States and 25 third countries submitted 338 responses on the public consultation and most responses were submitted by entities from Belgium, France, Germany and the United Kingdom. Most respondents commented that the EU framework for public reporting overall brings added value and is coherent, effective and relevant for achieving its main intended objectives of safeguarding stakeholders' interests, ensuring financial stability, developing the internal market, integrated EU capital markets and promoting sustainability. In terms of developing the internal market and promoting integrated EU capital markets, IFRS standards were considered effective as they helped reduce the cost of capital and increase investments in the EU. Concerning the potential impact of IFRS standards on sustainable investments; whilst a few believed IFRS standards had led to pro-cyclicality and short-termism, most respondents said that (to their knowledge) there was no evidence of such impacts. Several respondents pointed out that the broad criterion of 'being conducive to the EU public good' should allow the European Commission to adequately consider sustainability and long-term investment concerns during the endorsement process, though few saw a need to spell out specific sustainability and long-term investments endorsement criteria.

Most respondents supported the status quo about the EU IFRS endorsement process and cautioned against 'EU carve-ins' that could lead to 'EU-IFRSs', a situation that could be detrimental to EU companies active globally and to foreign investments into the EU. Those who were in favour of 'EU carve-ins' did not see why the EU should not enjoy this power whilst other jurisdictions do. Some of them argued that 'carve-in' powers would increase the Union's ability to influence the IASB standard-setting process compared to the current 'yes-no' endorsement process.

It is expected that the Commission will report on the overall fitness check in a Commission Staff Working Document by mid-2019 but at the date of writing no such document has been published.

In connection with the HLEG report, the European Commission has issued its action plan for financing sustainable growth in March 2018 where it committed to request EFRAG, where appropriate, to assess the impact of new or revised IFRS standards on sustainable investments.<sup>78</sup>

As a result, the European Commission requested EFRAG in June 2018 to consider alternative accounting treatments for equity instruments as required by IFRS 9. Possible accounting treatments should properly portray the performance and risk of long-term investment business models for those equity and equity type investments that are much needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on climate change. The request addresses concerns that neither of the accounting treatments in IFRS 9 for equity instruments is attractive for long-term investors and that this might create a disincentive to hold equity instruments on a long-term basis which might in turn curb financing for sustainable projects. In May 2019, EFRAG launched a public consultation to gather constituents' views on whether

alternative accounting treatments to those in IFRS 9 are needed whereby the consultation is intended to complement previous EFRAG discussions and consultations on the accounting treatment for financial instruments.<sup>79</sup>

#### 4.2.2 Russia

Stand-alone financial statements are required to be prepared by all legal entities in accordance with Russian Accounting Principles (RAP). Most of RAP are substantially based on IFRS, although some IFRS standards have no comparable RAP standard and some RAP standards that are based on IFRS have not been updated for recent changes.

However, Russian Federal Law On consolidated financial statements (the Law) requires mandatory application of IFRS for the preparation and presentation of consolidated financial statements by certain Russian entities, including credit institutions, insurance companies, listed companies, non-state pension funds, management companies of investment funds, mutual funds and non-state pension funds, and clearing institutions. In addition, pursuant to the Law, the Russian government issued a regulation that required certain state unitary enterprises and state-owned public joint stock companies to present their consolidated financial statements in accordance with IFRS. Russian entities that are otherwise in the scope of the Law but have no subsidiaries (except for banks that hold only a basic license) are also required to present their IFRS financial statements in addition to their single entity financial statements prepared under RAP. Credit institutions and listed companies are required to present their half-year interim consolidated financial statements under IFRS for interim purposes.

Credit institutions and listed companies are also required to present their half-year interim consolidated financial statements under IFRS for interim purposes.

There is an IFRS endorsement process in Russia. Individual IFRS standards (including interpretations) become mandatory starting from the effective date specified in the IFRS or from the date of its endorsement if it is later. IFRS standards can be voluntarily applied after they are endorsed but before their effective date. In practice, the time period between the IASB issuing a new or amended standard and its endorsement in Russia is not significant, which allows Russian companies to early adopt IFRS standards and amendments.

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 Central Bank of the Russian Federation, makes the final decision on endorsement and publication of an IFRS.

At the time of writing, the Ministry of Finance has endorsed, without any 'carve outs', all IFRS standards effective from 1 January 2019. IFRS 17 – *Insurance Contracts* – and IFRIC 23 – *Uncertainty over Income Tax Treatments* – have also been endorsed and, therefore, are available for early adoption by Russian companies.

### 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) adopted IFRS as Canadian GAAP for fiscal years beginning on or after 1 January 2011, with some deferrals for certain types of entities, which have now expired, and with the exception of pension plans and benefit plans that have characteristics similar to pension plans. Such plans 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 definition of ‘publicly accountable enterprises’ is essentially the same as ‘publicly accountable entity’ in IFRS for SMEs. 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 organisations, 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 seeks the input of Canadian stakeholders by issuing its own ‘wraparound 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 up to four times per year and has generated several submissions 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 also required to make a formal statement of compliance with IFRS as issued by the IASB for their consolidated financial statements. The previous exception for homebuilding companies, which were 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*, was eliminated with the adoption of IFRS 15. However, at the time of writing local regulators are still discussing how IFRS 15 should be applied for the homebuilding industry.

Banks are regulated by the Brazilian Central Bank, which continues to require preparation of financial statements under its pre-existing rules. However, larger companies, as defined by law, including banks, are also required to prepare annual 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 CPCs for SMEs which is an equivalent of IFRS for SMEs.

## 4.4 Asia

### 4.4.1 China

#### 4.4.1.A Mainland China

The Ministry of Finance in China (the MOF) – through its Accounting Regulatory Department – is responsible for the promulgation of accounting standards, 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 (2005 Beijing 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.

Since February 2006, the MOF issued a series of new and revised Accounting Standards for Business Enterprises (ASBE), which included the Basic Standard and 41 specific accounting standards. In April 2010, the MOF issued the *Road Map for Continual Convergence of the ASBE with IFRS* (the MOF 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 MOF Road Map also states that ASBE will continue to maintain convergence with IFRS.

In November 2015, representatives of the Trustees of the IFRS Foundation and the MOF held a bilateral meeting in Beijing, China. During the meeting, both parties noted the success of 2005 Beijing Joint Statement, between CASC and IASB. It is the view of both parties that 2005 Beijing Joint Statement has achieved its objectives. In particular, the ASBE is now substantially converged with IFRS and the use of those standards has significantly enhanced the quality and transparency of financial reporting in China. Recognising these developments, both parties updated the 2005 Beijing Joint Statement to reflect progress made in China and set out the following bases for future cooperation:

- reaffirming the goal of full convergence;
- enhancing continued cooperation; and
- establishing a joint working group for further cooperation.

To maintain continuous convergence with IFRS, during the period from July 2018 to July 2019, the MOF revised existing standards on leases, non-monetary transactions and debt restructurings. The MOF also released application guidance for leases. The standard on leases is generally consistent with IFRS 16 – *Leases*, while the standards on non-monetary transactions and debt restructurings are revised based on the general principles of 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 standards that do not have an IFRS equivalent, such as that on non-monetary transactions, debt restructurings 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. While ASBE and IFRS can be largely harmonised by selecting appropriate accounting policies with supplemental disclosures which satisfy the requirements of both sets of accounting standards, the more significant divergence 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.

HKFRS was fully converged with IFRS (subject to the exceptions discussed below) 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. When 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.

Certain smaller companies or groups meeting the necessary requirements and size criteria are permitted (but not required) to adopt the HKICPA's locally developed small and medium-sized financial reporting framework and financial reporting standards.

#### 4.4.2 Japan

Gradual convergence of Japanese GAAP and IFRS has been ongoing for a number of years; however, full mandatory adoption of IFRS in Japan has been put on hold for the time being.

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. This roadmap gives the option of voluntary adoption to companies that meet certain conditions.

In June 2013, the BAC published the *Interim Policy Relating to IFRS* (the Policy), which further encourages the voluntary adoption of IFRS. The Policy states that although it is not yet the right time to determine whether or not to require mandatory implementation of IFRS in Japan, the BAC recognises that it is important to expand greater voluntary adoption of IFRS in Japan. Accordingly, conditions for voluntary adoption of IFRS have been relaxed, and some other measures have been taken to make the dual reporting of IFRS in consolidated financial statements and Japanese GAAP in standalone financial statements less of a burden on preparers.

The ruling Liberal Democratic Party (LDP) issued the *Statement on Approach to IFRS* (the Statement) in June 2013. In contrast to the Policy issued by the BAC, the Statement puts more emphasis on preparation for the future adoption of IFRS. The Statement highlights key points to expand greater voluntary adoption of IFRS in Japan.

IFRS as issued by the IASB is the basis of voluntary adoption of IFRS in Japan, but a further endorsement mechanism was put in place in 2015. It is contemplated that under this endorsement mechanism, each IFRS would be reviewed and amended only after careful consideration of situations specific to Japan. However, the endorsement mechanism has been used to introduce a 'carved-out version' of IFRS to make transition to IFRS as issued by the IASB easier for Japanese companies. In June 2015, Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRS standards and the ASBJ Modifications were issued by the Accounting Standards Board of Japan (ASBJ). JMIS differs from IFRS in that it requires goodwill to be amortised and requires all items recorded in other comprehensive income be recycled

to profit or loss eventually. At the time of writing, no Japanese companies have announced plans to apply JMIS. It should be noted that despite the introduction of JMIS, there is no change in the option of Japanese companies to use IFRS as issued by the IASB if they so elect.

As a result, the number of the companies adopting IFRS in Japan voluntarily increased to approximately 210, mostly larger, companies. Although a small percentage of listed companies, the companies that have adopted IFRS represent a significant and growing part of the market capitalisation of the Tokyo Stock Exchange, accounting for more than 33% of the total market capitalisation at the time of writing.

#### *4.4.3 India*

Accounting standards in India are formulated by the Institute of Chartered Accountants of India and recommended to the Ministry of Corporate Affairs (MCA). The Ministry notifies the standards under the Companies Act by publishing them in The Gazette of India, in consultation with the National Financial Reporting Authority (until 1 October 2018, the National Advisory Committee on Accounting Standards was the relevant advisory body). Notified standards are authoritative under Indian law. Until the financial year ended 31 March 2016, all companies registered under the Companies Act were required to follow Indian GAAP standards, which are based on old versions of IFRS and contain many key differences from IFRS.

In February 2015, the MCA notified the Companies (Indian Accounting Standards) Rules, 2015<sup>[j]</sup> laying down the roadmap for application of IFRS converged standards, known as Indian Accounting Standards (Ind AS), to Indian companies other than banking companies, insurance companies and non-banking finance companies (NBFCs). The Ind AS standards have also been notified.

In January 2016, the MCA issued the phasing-in dates of Ind AS applicability for NBFCs. The Reserve Bank of India also issued the Ind AS applicability dates in phases for banks starting from 1 April 2018. However, pending necessary legislative amendments and considering the level of preparedness of many banks, implementation of Ind AS to the banks has been deferred till further notice. The Insurance Regulatory and Development Authority of India initially expected Ind AS to be applied to insurers from the same date as banks. However, due to the issuance of IFRS 17 by the IASB, the applicability of Ind AS to insurers is deferred by two years and would be expected to be applicable from 1 April 2020.

All companies applying Ind AS are required to present comparative information according to Ind AS for at least one year. Ind AS will apply to both standalone financial statements and consolidated financial statements of companies covered under the roadmap.

Companies not covered under the roadmap can either apply Ind AS voluntarily or continue applying existing standards, i.e. current Indian GAAP. If Ind AS is applied voluntarily, this option will be irrevocable. In 2009, the Securities and Exchange Board of India, the securities regulator in India, permitted listed companies with subsidiaries to submit their consolidated financial statements in accordance with IFRS as issued by the IASB. Few companies in India have availed themselves of this option.

The option is no longer available for companies. Ind AS contains certain departures from IFRS, including:

- mandatory deviations from IFRS, such as, accounting for foreign currency convertible bonds, accounting for a bargain purchase gain (i.e. 'negative goodwill') in a business combination and current/non-current classification of liabilities on breach of loan covenants;
- optional carve-outs, such as, measurement of property, plant and equipment on first-time adoption and accounting for foreign exchange differences on long-term monetary items that exist at the date of transition;
- removal of accounting options under IFRS, such as, removal of the fair value measurement option for investment properties and the removal of the two-statement approach for the statement of comprehensive income;
- additional guidance under Ind AS, such as for common control business combinations, foreign exchange differences regarded as an adjustment of borrowing costs and treatment of security deposits; and
- companies are required to apply Ind AS 109 – *Financial Instruments*, corresponding to IFRS 9, from the date of initial application of Ind AS. There is no Ind AS corresponding to IAS 39. Ind AS 115 – *Revenue from Contracts with Customers*, corresponding to IFRS 15, whose application was originally deferred, is applicable for financial year beginning on or after 1 April 2018.

Consequently, financial statements prepared in accordance with Ind AS may not comply with IFRS.

#### 4.5 Australia

Australia has a regime in which IFRS standards are issued under its legal framework as Australian Accounting Standards. These are essentially word-for-word copies of IFRS ('IFRS equivalent'). Australian Accounting Standards also include some additional Australian specific paragraphs for not-for-profit and public sector entities.

In addition to the IFRS equivalent Australian Accounting Standards, there are some additional Australian specific standards for entities such as superannuation entities, general insurance and life insurance entities (the insurance standards will be replaced by AASB 17 – *Insurance Contracts*, which is equivalent to IFRS 17, once effective), not-for-profit entities and public sector entities and some additional disclosures exist within certain standards.

Compliance by Australian private sector for-profit reporting entities with Australian Accounting Standards will result in compliance with IFRS as issued by the IASB, unless they are not publicly accountable and elect to apply the Reduced Disclosure Regime (RDR) framework. Explicit statements of compliance with IFRS – when they are compliant – are required to be made by the preparers (in the notes to the financial statements and in the Directors' Declaration required by the Corporations Act), as well by the auditors in their reports. Not-for-profit and public sector entities cannot make an explicit statement of compliance with IFRS.

Australia has not adopted IFRS for SMEs, and does not appear likely to in the near future because of measurement differences and the removal of options as compared to IFRS.

Australia has a Reduced Disclosure Regime (RDR) for reporting entities that are not publicly accountable (per the IFRS for SMEs definition). This framework requires such entities to apply all of the recognition and measurement requirements of Australian Accounting Standards, but have reduced disclosure requirements. The Reduced Disclosure Regime disclosures are specified and were chosen based on the principles adopted by the IASB in its development of the IFRS for SMEs. Financial statements prepared under the Reduced Disclosure Regime are general purpose financial statements but will not comply with IFRS as issued by the IASB.

Australia also permits non-reporting entities (as defined by Australian Accounting Standards) to prepare special purpose financial statements. Preparers are encouraged to follow the recognition and measurement requirements of Australian Accounting Standards but have flexibility as to the level of disclosure they choose to provide. The Consultation Paper Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems, issued by the Australian Accounting Standards Board in May 2018, proposes to eliminate special purpose financial statements for entities required by legislation or otherwise to comply with Australian Accounting Standards. The affected entities may therefore be required in the future to prepare general purpose financial statements in accordance with Australian Accounting Standards. Depending on the nature of the entity, these general purposes financial reports may be fully compliant with IFRS or may be prepared under the RDR.

#### **4.6 South Africa**

For periods beginning on or after 1 January 2005, the South African securities exchange, JSE Limited (JSE), has required that all listed companies prepare financial statements under IFRS.

Effective 1 May 2011, the South African Companies Act permits different accounting frameworks to apply to different categories of companies based on their 'public interest score'. Listed companies are required to use IFRS, however other companies (depending on their public interest score) may apply IFRS, IFRS for SMEs, or in certain situations (introduced, in particular, for micro-entities) entity specific accounting policies as determined by themselves.

In addition to the disclosure requirements of IFRS and IFRS for SMEs, the South African Companies Act and the JSE impose certain additional disclosure requirements on reporting entities. Further, the previous South African standard setter – the Accounting Practices Board – has issued three Financial Reporting Guides. While these interpretations are specific to issues in the South African environment, IFRS reporters in South Africa make use of them as they are based on a framework equivalent to that used for IFRS. These are updated for developments in IFRS.

## **5 CONSISTENCY IN APPLICATION OF IFRS**

The use of a consistent set of accounting standards by companies throughout the world has the potential to improve the comparability and transparency of financial information. The provision of higher quality information has been shown to reduce financial statement preparation costs and, it is believed, to enable capital markets

participants to make better decisions. The global adoption of IFRS is a necessary condition for global comparability, but, on its own, it is insufficient. Global comparability cannot be achieved without a rigorous and consistent application of the standards. However, consistent application of the standards cannot be achieved unless countries adopt IFRS without modifying the standards issued by the IASB.

Studies into the impact of the use of IFRS indicate reduced cost of capital and improvements in share prices and trading, resulting in part from increased disclosure and enhanced information comparability. However, the research concludes that these improvements occur in countries with strong legal enforcement.<sup>80</sup> The adoption of IFRS alone is, therefore, unlikely to produce uniform financial reporting. The standards need to be applied, audited and enforced on a consistent basis in order to get the most out of comparability.<sup>81</sup>

Practitioners and regulators agree that enforcement of accounting standards is an integral part of achieving accounting quality under IFRS. With this in mind, ESMA has agreed on common enforcement priorities and has made the consistent application of IFRS one of its primary objectives. In December 2014, ESMA's guidelines on enforcement of financial information (the Guidelines) became effective. They replace earlier versions of the guidelines from ESMA and its predecessor, the Council of European Securities Regulators (CESR). The Guidelines apply to all EU national competent authorities and other bodies in the EU that undertake enforcement responsibilities. The Guidelines build on a common approach to the enforcement of financial information and reinforce coordination among European enforcers. In addition, the Guidelines codify European common enforcement priorities and include a requirement to discuss views on accounting matters prior to taking enforcement decisions.<sup>82</sup>

In addition to enforcement, ESMA contributes to the standard-setting process by engaging with the IASB and the Interpretations Committee by submitting comment letters and identifying areas of diversity in practice (including areas in which a lack of clarity in standards could lead to diversity in practice). In addition, the IFRS Foundation and ESMA have entered into a joint Statement of Protocols, which reaffirms the cooperation between the two entities as well as describes additional areas of cooperation including electronic reporting, the implementation of new standards and emerging financial reporting issues.<sup>83</sup>

The IFRS Foundation and IOSCO have entered into a joint Statement of Protocols to facilitate consistency in the application of IFRS. This is in addition to the memorandum of understanding between the capital markets authorities that formed the Monitoring Board (see 2.3 above) and the IFRS Foundation.<sup>84</sup>

The SEC stresses the importance of enforcing IFRS, not only through its filing review process of foreign private issuers, but also through its collaboration with foreign counterparts bilaterally and through IOSCO.<sup>85</sup>

Although consistent application of IFRS is not the primary responsibility of the IASB, it understandably takes a keen interest. The ASAF was established (see 2.8 above) to coordinate interaction with national and regional standard-setting bodies to, among other things, identify where divergence occurs across borders.<sup>86</sup> The post-implementation reviews of all major standards and interpretations are intended to

identify and rectify difficulties in consistency that are identified only after the standard is used. The Interpretations Committee plays a key role as well.

Much has been written about consistency in IFRS, but a recurring message is that it requires a coordinated effort by standard-setters, preparers, regulators and auditors.

## 6 SUMMARY

IFRS is now, together with US GAAP, one of the two globally recognised financial reporting frameworks. Although the goal of a single set of high-quality global accounting standards has not 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'.

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