IFRS in global practice
Introduction

► We have learned that the objective of IFRS is to have a single set of high-quality accounting standards applied consistently around the world. You have also learned or will be learning about the standard-setting process of the IASB and about the IFRS standards themselves.

► Outside of learning about these areas, it is also important to understand how IFRS is applied in global practice.

► IFRS, as promulgated by the IASB, is sometimes referred to as “pure” IFRS or “full” IFRS. Currently, 117 countries have adopted IFRS or have set a date certain to adopt IFRS. However, IFRS in this context does not mean pure or full IFRS necessarily. The standards themselves might vary by country and IFRS might also be practiced differently by country.

► In this module, we will explore the following:
  ► The objectives of consistent global application.
  ► Country/jurisdictional practice and standards differences and the reasons behind them.
  ► The impact of cultural differences.
  ► Political influences, enforcement concerns and measures being taken to ensure consistent global application.
Objectives of consistent global application

► IFRS, by its sheer nature, must be flexible to accommodate the practice needs in every country globally.
  ► As we have learned in the *Principles of IFRS* module, the principles orientation of IFRS helps to accommodate this need for flexibility. IFRS is very judgment based as well and also allows the use of alternative accounting treatments.

► Because of these dynamics, the objectives for global consistent application of IFRS should **not** mean that, for a given set of facts and circumstances, any company in any given country would apply the same accounting practice. Rather, given these facts and circumstances, we would want to see consistency in acceptable interpretation supported by professional judgment by every company in every country.
Objectives of consistent global application

For instance, Company A in Canada and Company B in China both purchase an identical plane on the same day. Both use the straight-line method for depreciation. Both companies are express package carriers; however, Company A delivers packages internationally while Company B delivers packages domestically. Additionally, Company B has a much higher volume of package deliveries.

While this set of facts and circumstances is very similar, we would not want to see management from both companies use the same economic life of the plane. Rather, we would want to see management apply its judgment in regard to the economic life of the plane and determine that the life would vary between these two companies in consideration of the volume, length and rigorous nature of the flight activity. This would represent consistency in application rather than saying that this is inconsistent because it is not the same.
Objectives of consistent global application

- The global application of IFRS is still evolving. In this evolution, it is extremely important for all of us to work together to promote consistent application in global practice in the most pure form.
Each country or jurisdiction has its own regulatory process in adopting IFRS as its set of national accounting standards. Let’s take a look at some of these significant jurisdictions, their processes and the impact that they have in relation to the objective of consistent global practice.
IFRS by jurisdiction
The European Union (EU)

► The EU is an economic and political union of 30 member states (this includes 3 candidate countries) located primarily in Europe.

► The EU, through the European Commission, has a due process to endorse standards in the EU. The EU considers each standard issued by the IASB and then, if approved, the standard is endorsed by the European Commission for practice in the EU.

► Financial statements from an EU public reporting entity are presented as “true and fair” in accordance with IFRS as adopted by the EU.
Many EU companies must also file financial statements with their local government for tax purposes. These are referred to as statutory financial statements. However, the basis of reporting under statutory requirements differs by each country within the EU:

- Some countries require these financial statements to be reported under IFRS as adopted by the EU (e.g., Italy and Romania for banks).

- Some countries permit the financial statements to be reported under IFRS as adopted by the EU if they are consolidated (e.g., Germany, Austria) and/or stand alone (e.g., UK, Ireland, Poland). Alternatively, they may use their local GAAP.

- Note that the Accounting Standards Board (ASB) has issued a consultation paper considering convergence with IFRS for statutory reporting by most entities in the UK and Ireland. The consultation paper proposes January 1, 2012, for such a change.

- Some countries require companies to report under a national GAAP (e.g., France, Switzerland) that is different than IFRS.
Deferred effective date: As the endorsement process by the EU is initiated after the issuance of the standard or interpretation by the IASB/IFRS Interpretations Committee, the EU effective implementation date of a standard might be deferred relative to the date set by the IASB/IFRS Interpretations Committee. As a result, a company reporting in a non-EU country might be applying a standard or interpretation in a given reporting period while an EU reporting entity may not.

Exceptions: The EU has the ability through its due process not to adopt a full standard or portions thereof. This is called a “carve-out.”

Historically, the EU has exercised these exceptions, but in very few circumstances. They are generally identified as “temporary carve-outs” as the EU tries to then resolve their concerns with the IASB. It is expected that these occurrences will be less likely going forward, given the interest in global consistent application and overall improvements to the standard setting process.

Companies reporting in the EU would have to qualify their IFRS compliance disclosure. IFRS 1, Adoption of IFRS, paragraph 16, requires a company to make an explicit statement in their financials that the financials are in compliance with IFRS. If this disclosure is not made, the financial statements are assumed to be non-compliant. For example, the disclosure on the following slide is from the BP’s 2009 annual report:
BP 2009 Annual report disclosure on statement of compliance:

**Authorization of financial statements and statement of compliance with International Financial Reporting Standards**

The consolidated financial statements of the BP group for the year ended 31 December 2009 were approved and signed by the chairman and group chief executive on 26 February 2010 having been duly authorized to do so by the board of directors. BP p.l.c. is a public limited company incorporated and domiciled in England and Wales. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the group’s consolidated financial statements for the years presented. The significant accounting policies of the group are set out below.
IFRS by jurisdiction
The European Union (EU) – differences in global application based on EU dynamics

- National GAAP: If companies are required to report according to a national GAAP for their statutory reporting, this will influence accounting practice decisions and presentation for IFRS reporting where options are permissible or where there is a lack of specific guidance that would not prevent a national GAAP practice or presentation. Due to convenience, it would be expected that the national practice or presentation used by the company would then also become the practice or presentation they use for IFRS.
  - For instance, in the manner of balance sheet presentation, there is no specific order required for accounts prescribed by IFRS. Typically, however, you will see non-current assets presented first, prior to current assets. This presentation stems from national UK GAAP requirements and is now considered to be a common IFRS presentation practice. Comparatively, in the US, we see current assets presented first, followed by non-current assets.
IFRS by jurisdiction

Australia

► IFRS in Australia is known as the Australian equivalent of IFRS (Australian IFRS or A-IFRS) but it is officially referred to as Australian Accounting Standards (AASB).

► In substance, A-IFRS is IFRS as promulgated by the IASB, but in some limited cases, some options have been removed, terminology has been changed to better reflect local terminology, additional disclosures have been required and additional requirements have been added for non-profit entities and for some industry specific issues not addressed by IFRS. Therefore, any entity reporting in accordance with AASB can also say that they are in compliance with full IFRS but not pure IFRS. From a financial reporting standpoint, companies that report under AASB are able to make the explicit statement of compliance disclosure. For example, the disclosure below is from Qantas’ 2009 annual report:

► There have been some recent efforts to try to start removing some of these domestic layers to purify the standards.

► Under AASB, IFRS standards have been renumbered with AASB references, so when looking at financial statements of Australian companies, users will not find IFRS references

(A) STATEMENT OF COMPLIANCE
The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.
IFRS by jurisdiction
Australia – differences in global application based on Australian dynamics

► Options: Accounting options under IFRS allow a company to have choices to best reflect the economics of a transaction. By removing an option, this limits a company’s ability to best reflect the transaction.

► Add-ons: Additional accounting and/or disclosure requirements will limit comparability with non-Australian users but might also influence future requirements for international standards.

► References: The difference in naming conventions adds complexity in the understanding of financial statements by non-Australian users and also limits comparability.
China, similar to the EU, has an endorsement process in adopting IFRS and issues its own national version of standards, Chinese Accounting Standards (CAS), also referred to as Accounting Standards for Business Enterprises (ASBEs). ASBEs are substantially converged with IFRS, but they are not a direct translation of IFRS. The goal is for the ASBEs to have all remaining differences with IFRS eliminated by 2012. A roadmap was released by China’s Ministry of Finance to address this full convergence effort.

Note that Hong Kong, while a part of China, operates under a different system. The Hong Kong Institute of Certified Public Accountants (HKICPA) is the body that sets Hong Kong Financial Reporting Standards (HKFRS). These standards are fully converged with IFRS and have been translated word for word.
Most of these differences are attributable to the amount of government control that exists in China and the fact that China is still an emerging market. Most businesses are state owned and pricing can be controlled for certain assets by the government. The ASBEs have taken these attributes into account, resulting in differences with IFRS in certain areas, such as related-party disclosures and not allowing the reversal of impairments of non-current assets.
**Related parties:** As mentioned, most businesses have some form of government control and are deemed to be related parties under IAS 24, *Related Party Disclosures*. Therefore, IFRS would require these transactions to be disclosed. This difference was evaluated by the IASB and resulted in an amendment to IAS 24 in November 2009 with an effective date of January 1, 2011. This amendment now allows a disclosure exemption for government-related entities with control. This demonstrates an example where the IASB has made a change to the standards to accommodate a practice issue.

**Reversal of impairment of non-current assets:** IFRS allows the reversal of impairment of non-current assets (e.g., fixed and intangible assets) to be recognized in the current year’s financial performance. Under China’s accounting standards, these impairments are not allowed to reverse. The reason for this is when impairment is confirmed, after significant public consultation, the Chinese government assumes the impairments to be permanent and therefore, extremely unlikely for further reversal. In the event that impairment is not permanent, this would result in a difference in practice.
The Accounting Standards Board of Japan (ASBJ) and the IASB concluded the “Tokyo Agreement” in 2008 and agreed to the acceleration of convergence. Since that time, the significant differences between Japanese generally accepted accounting principles (JGAAP) and IFRS have been eliminated and the remaining differences are expected to be eliminated by June 2011.

In December 2009, a new accelerated roadmap for convergence was announced allowing listed international companies to report under IFRS for financial years ended on or after March 31, 2010. The decision for mandatory adoption will be made in 2012.
The Ministry of Corporate Affairs for Convergence in India announced a roadmap for the convergence of Indian GAAP with IFRS. The roadmap proposes two separate sets of accounting standards. The first set consists of Indian GAAP fully converged with IFRS and would apply to listed entities and some large entities. The second consists of current Indian GAAP and would apply to smaller entities.
IFRS by jurisdiction

Canada

- Public companies in Canada are required to transition to pure IFRS on January 1, 2011.
Cultural differences

It is probably idealistic to believe that the effects of cultural differences on the application of accounting standards will diminish as a result of the adoption of IFRS. These cultural differences might reveal themselves in the following areas:

- Judgment
- Translation
- Legal and regulatory environment
As mentioned previously, IFRS includes more ambiguous terms and allows for more judgment in certain circumstances. Judgment is impacted by the level of conservatism and confidentiality. Research has shown that both conservatism and confidentiality are influenced culturally.¹

If a country’s general practices are more conservative in nature with a high degree of confidentiality, you might expect to see higher liabilities, lower assets and fewer disclosures. Alternatively, if a country’s general practices are less conservative in nature with a lesser degree of confidentiality, you would expect to see lower liabilities, higher assets and more disclosures.

Cultural differences
Translation

► Pure IFRS is written by the IASB in English. Thus, in non-English-speaking countries, IFRS needs to be translated into the native language. As there is not always a direct translation for certain words or because certain words might have different meanings or interpretations in different languages, this could potentially cause issues in comparability and practice.

► The IFRS Foundation oversees the translation of IFRS. This translation process is very rigorous and special care is taken to address potential translation issues.
Cultural differences
Legal and regulatory environment

► In many countries, the national financial reporting requirements are directly tied to tax reporting requirements. As such, this practice might drive certain accounting policy elections under IFRS.

► Some countries have a more litigious environment than others, such as the US. This type of environment drives accounting practice behaviors. There are concerns that the practice of IFRS in these types of environments will negatively influence the proper use of judgment, although this has not been substantiated. See the Principles of IFRS module for more details.

► As discussed above in relation to China, certain countries are under a greater amount of government or regulated control and this has a potential impact on the application of certain accounting policies.
Political influence and enforcement

- The global application of IFRS is impacted by both the political influences placed on the international standard-setting bodies and by the individual enforcement capabilities of IFRS application by national regulators. While the IASB is a private-sector body and has no political accountability, challenges in these areas of political influence and enforcement, especially in these more difficult economic times, have been observed. However, there is a great deal of effort being placed on addressing these challenges.
Political influence and enforcement
Political influence – international

► Diversity in geographic representation: As discussed in the Introduction to IFRS module, there is diverse geographic representation within the international standard-setting bodies. This diversity helps to minimize any undue influence from a particular jurisdiction.

► Some national standard setters from similar geographic jurisdictions have chosen to begin working together to have a stronger voice in the standard setting process.

► In November 2009, the Asian-Oceanian Standard-Setter Group (AOSSG) met for the first time. The AOSSG represents 24 countries in the region, including Australia, China, Japan, Hong Kong, Saudi Arabia, Malaysia and New Zealand.
Political influence and enforcement
Political influence – Monitoring Board

In 2009, a Monitoring Board of public authorities was put into place within the structure of the international standard setters.

► The Monitoring Board comprises the relevant leaders from the Emerging Markets and Technical Committees of the International Organization of Securities Commission (IOSCO), the European Commission, the Japan Financial Services Agency (FSA), and the US Securities and Exchange Commission (SEC). The Basel Committee on Banking Supervision sits as a formal observer at Monitoring Board meetings.

► The Monitoring Board’s main responsibilities are to ensure that the Trustees of the IFRS Foundation continue to discharge their duties as defined by the IFRS Foundation Constitution as well as to approve the appointment and reappointment of Trustees.
Currently, the US holds a position of influence in the international standard-setting arena with its representation on the Monitoring Board, IFRS Foundation and IASB. These positions could be at risk if the US does not move forward with the decision to adopt IFRS in 2011. In its Work Plan in addressing this decision, the SEC will continue to consider the extent to which the IASB’s governance (including its Monitoring Board), composition, funding and standard-setting process continue to promote the reporting of full, fair and reliable financial information to support investors.

In terms of political influence, SEC Commissioner Elisse B. Walter has commented that the work of accounting standard setters should remain “free of distortions from potentially self-serving influences” and that oversight of the standard-setting process “should not become entangled with other regulatory priorities, such as addressing systemic risk.” Walter emphasized that accounting standards should be “fair and objective, based on expert analysis and judgment, and free of undue influence, both political and commercial, so that they can be applied consistently across situations involving thousands of different companies.”
Political influence and enforcement
Enforcement – international

► As stated previously, there is no international regulatory authority that can enforce IFRS on a global basis. As a result, each national regulatory authority continues to play a critical role. Without a clear precedent, preparers and their auditors sometimes turn to regulators for interpretive guidance. National regulators have begun working together to develop protocols for sharing confidential information to assist in dealing with regulatory issues in multijurisdictional filings. We should expect to see this collaboration strengthen over time.

► Global auditing firms have a unique opportunity for exposure to accounting issues that cross multiple jurisdictions. As such, they play a role in enforcing the consistent global application of IFRS, to a degree. Global leaders/committees of these large organizations meet frequently to discuss application of IFRS. Additionally, there is a formal association of these firms sponsored by the International Federation of Accountants (IFAC) known as the Forum of Firms (FOF). The objective of the FOF is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide.
As discussed in the Introduction to IFRS module, at the SEC’s February 2010 public meeting, SEC Chief Accountant James Kroeker addressed the concerns about US enforcement on behalf of US investors. In addition to the US representational influence on the Monitoring Board, he also pointed out that the FASB will play a key role in further aligning US GAAP with IFRS and would have an ongoing and substantive role post adoption, similar to national standard setters in other post-adoption jurisdictions.