

International Financial Reporting Standards



**Presentation to
UK Charities
SORP Committee**

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IASB Board Member
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Use of International Financial Reporting Standards Around the World

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IASB History 3

- **1967: Accountants International Study Group (US, UK, Canada)**
 - Published 21 comparative studies
- **1973-2001: International Accounting Standards Committee**
 - Developed IASs 1 to 41
- **2001 to Present: International Accounting Standards Board**
 - IFRSs (1 to 13 so far)
 - Plus many improvements to old IASs

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Why global GAAP for listed companies 4

- **Historically accounting standards evolved country by country.**
 - Set by government, or accounting profession, or independent board.
- **National standards made sense when companies raised money in, and investors sought investment opportunities in, only their home country.**
- **Big change 1975-2010:**
 - Globalisation of capital markets.

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Use of IFRSs around the world today 5

For domestic <u>listed</u> companies:	Number of Jurisdictions
IFRSs required for all	93
IFRSs required for some	6
IFRSs permitted	24

Today, IFRSs are used by listed companies in 123 jurisdictions.

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Use of IFRSs around the world today 6

For domestic <u>unlisted</u> (private) companies:	Number of Jurisdictions
IFRSs required for all	25
IFRSs required for some	29
IFRSs permitted	44

Today, IFRSs are used by unlisted companies in 98 jurisdictions.

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Fortune Global 500 (July 2010) 7

Which GAAP?	Based on announced plans		
	2010	2013	If Japan 2015
IFRS and word-for-word equivalents	39%	46%	60%
US GAAP	31%	31%	28%
National GAAP	30%	23%	12%
Totals	100%	100%	100%

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Fortune Global 500 (July 2010) 8

Increases from 2010 to 2013 (listed companies):

	Switch to IFRSs	No. G500 co's
Brazil	2010	7
Canada	2011	11
Malaysia	2012	1
Mexico	2012	2
Singapore	2012 (nearly IFRS now)	2
S. Korea	2011	10
Taiwan	2013	8

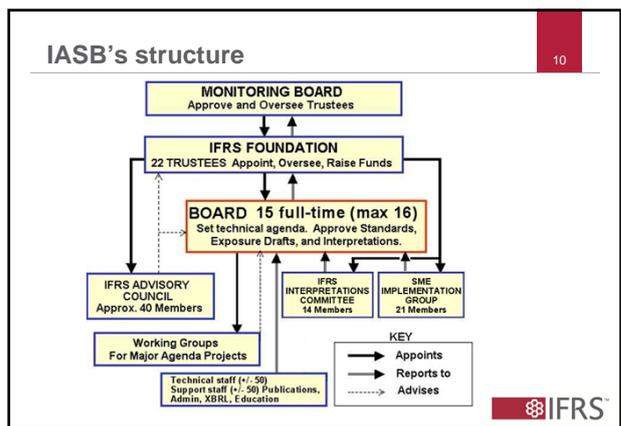
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Fortune Global 500 (July 2010) 9

After 2013, remaining non-IFRS (listed companies):

	Comments	No. G500 co's
China	Adopted main IFRS principles	46
India	Proposed many modifications to IFRSs. Would not be IFRS.	8
Japan	Seriously considering 2015 or 2016	71 (54 J-GAAP & 17 US GAAP)
Russia		6
Saudi Arabia		1
Thailand		1
USA	SEC Roadmap and Work Plan	139

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The International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)

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- The IFRS for SMEs**
- Good Financial Reporting Made Simple.**
- 230 pages (full IFRSs are 3,000+)
 - Simplified IFRSs – built on an IFRS foundation
 - Completely stand-alone
 - Why? Designed specifically for SMEs
 - User needs for information about short-term cash flows, liquidity, and solvency
 - Costs and SME capabilities
 - Final standard issued July 2009
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Who is eligible to use it?

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Any entity that does not have public accountability...

- securities not publicly traded
- not a financial institution

... and is required or chooses to produce General Purpose Financial Statements (GPFS)

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Who is the Standard aimed at?

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Millions of companies (over 99%)!

- The 52 largest stock exchanges in the world together have about **45,000** listed companies
- Europe has roughly **28 million** private sector enterprises (SMEs)
- USA has about **25 million**
- UK: **4.7 million** (99.6% under 100 employees)
- Hong Kong: **870,000**
- Brazil: **6 million**

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The public interest

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Which entities must produce GPFS is a public interest issue

- Decided by parliaments and regulators, not by IASB (or by FASB in USA)
- Why? There is a public benefit in good financial information about companies

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Charities and government entities

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Can NFP or government entities use IFRS for SMEs?

- Receiving donations or tax payments from the public would not make an entity publicly accountable provided those assets were not held for the outsider. Generally this is not the case and money donated or paid immediately becomes an asset of the entity to be employed in the primary business (eg the charitable business, teaching, etc).

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How did we simplify?

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1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting

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Disclosure simplifications

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Big reduction in disclosures:



- Full IFRSs – more than **3,000** items in the disclosure checklist
- IFRS for SMEs – roughly **300** disclosures

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Is it stand-alone or linked to full IFRS?

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Completely stand-alone

- The only 'fallback' option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs

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Why would an SME want to adopt It?

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Improved access to capital

- This is the #1 issue with SMEs

Improved comparability

Improved quality of reporting as compared to existing national GAAP

- World Bank ROSC reports – 85 countries
- http://www.worldbank.org/ifa/rosc_aa.html

Reduced burden in jurisdictions where full IFRSs or full national GAAP are now required

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Jurisdiction plans for adoption

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Today (October 2011), to the best of our knowledge:

- **74 jurisdictions** have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years

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Plans for adoption: Some examples

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- **South America:** Argentina, Brazil, Chile, Guyana, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bermuda, Bahamas, Barbados, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
- **Africa:** South Africa, Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, Tanzania, Swaziland, Uganda, Zimbabwe

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Plans for adoption: Some examples

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- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka
- **Middle East:** Jordan, Lebanon, Palestine, Qatar
- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Adopted: Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs.
- **North America:** Available for use in United States, Canada

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Implementation support from IASB

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Translations

- **Completed:** Arabic, Armenian, Chinese, Czech, French, Italian, Lithuanian, Portuguese, Romanian, Russian, Spanish, Turkish
- **In process:** Hebrew, Japanese, Kazakh, Khmer, Macedonian, Mongolian, Polish, Serbian, Ukrainian
- **Proposed or in discussion:** Albanian, Bulgarian,

Monthly IFRS for SMEs Update Newsletter

- Free. Prepared by IASB staff.

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Implementation support from IASB

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Free training materials

- One module per Section (Spanish available)

Free training workshops (regional, 3 days)

- **To date:** in Malaysia, India, Tanzania, Egypt, Gambia, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar

- **Upcoming:** Barbados, Kenya, Dubai,

SME Implementation Group

- Publish implementation Q&As
- Recommend to IASB needed modifications

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Free downloads from IASB

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IFRS for SMEs (full standard, translations):

<http://go.ifrs.org/IFRSforSMEs>

Training materials (35 modules):

<http://go.ifrs.org/smetraining>

PowerPoint training modules (20 PPTs):

<http://go.ifrs.org/trainingppts>

Board and staff presentations:

<http://go.ifrs.org/presentations>

Update newsletter:

<http://go.ifrs.org/smeupdate>

Implementation Group Q&As:

<http://go.ifrs.org/smeig>

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IASB's Agenda Consultation

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IASB agenda consultation

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What next?

- What should be our broad strategic direction over the next three years?
- Areas of key importance for financial reporting?
- How should IASB balance the development of financial reporting with the maintenance of the IFRSs?

Consultation document: July 2011

- Intentionally broad and open-ended

Comments due: 30 November 2011

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IASB agenda consultation

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Development of financial reporting

- Investing in researching key strategic issues
- Completion of the conceptual framework
- Completing MoU projects (**must continue**)
- Selected standards-level projects
 - Agenda projects currently deferred?
 - New projects?

Maintenance of existing IFRSs (**must continue**)

- Post-implementation reviews
- Responding to implementation needs

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IASB agenda consultation

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Completing MoU projects - joint with FASB

- Revenue
- Leases
- Financial Instruments:
 - Impairment
 - Offsetting
 - Hedge accounting
 - IFRS 9
- Plus Insurance (not MoU, joint with FASB)

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IASB agenda consultation

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Conceptual Framework

- Definitions of elements of financial statements
- Recognition and derecognition.
- Measurement
- Reporting entity
- Presentation and Disclosure
- Defining the boundaries of financial reporting
- Extend to not-for-profit and government?

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IASB agenda consultation

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Restart projects currently deferred?

- **IASB-FASB MoU projects**
 - Comprehensive project on financial statement presentation
 - Comprehensive project on income taxes
 - Liability-equity distinction
- **IASB non-MoU projects**
 - Emissions trading
 - Rate regulated entities
 - Common control transactions

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Potential projects

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Frequent suggestions for potential topics

- Agriculture: bearer biological assets
- Foreign currency translation
- Other Comprehensive Income – what should be included and should it be recycled?
- Hyperinflation
- Reconsider share-based payment
- Income taxes
- Government grants
- Equity method

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Potential project on not-for-profits?

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IFRS Foundation Trustees Strategy Report April 2011:

“In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (ie both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.”

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Potential project on not-for-profits?

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My personal encouragement to SORP Committee:

Consider whether to address this issue in your response on Agenda Consultation. If you think IASB should add not-for-profits to its agenda, there's no harm in making your views known.

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Timeline

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Why consult on our agenda now?

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Important junction in our history

- Initial agenda focused on European, Australian/New Zealand adoption in 2005
- Then completion of US MoU and response to financial crisis (nearly done now)

Start of a new phase

- Chance to openly discuss 'What next?'

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Questions or comments?

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Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.



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