Why Global GAAP for Listed Companies

- 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 1975-2000:
  - Globalisation of capital markets.

Why Global GAAP for Listed Companies

- Now, investors seek investment opportunities all over the world.
- Companies seek capital at the lowest price anywhere.
- Cross-border mergers.

Accounting differences reduce understandability and obscure comparisons that investors want to make.

Enhancing Shareholder Value

- High quality global financial reporting standards – carefully applied – benefit investors, lenders, other capital providers:
  - Information is understandable
  - Domestically and across borders
  - Comparability is enhanced
  - Capital providers have confidence

Enhancing Shareholder Value

- High quality global standards also benefit companies that seek capital:
  - Reduce compliance costs
  - Remove uncertainties that affect their cost of capital
- Improve consistency in audit quality
- Facilitate education and training
IASB History

• **1973-2000:**
  – International Accounting Standards Committee (IASC)
  – Set up by 9 countries because of globalisation of capital markets
  – IASs 1 to 41
  – By 2000 only some voluntary adoptions by listed companies, very few unlisted

• **Since 2001:**
  – IASC reorganised into International Accounting Standards Board (IASB)
  – IFRSs 1-9 and improved IASs 1-41
  – Adoptions for listed companies by over 120 countries
  – Europe was the catalyst – adopted IFRS for listed companies starting 2005
  – Dozens of other countries followed

IASB’s Objectives

• **One set of global standards:**
  – International Financial Reporting Standards (IFRSs)

• **Increase number of countries using IFRSs**

• **Separate Standard for SMEs**
  – Based on user needs and cost/benefit

www.ifrs.org

Use of IFRSs Around the World Today

For domestic listed companies:
- IFRSs required for all: 91 jurisdictions
- IFRSs required for some: 6 jurisdictions
- IFRSs permitted: 26 jurisdictions

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

For domestic unlisted (private) companies:
- IFRSs required for all: 25 jurisdictions
- IFRSs required for some: 27 jurisdictions
- IFRSs permitted: 43 jurisdictions

Today, IFRSs are used by unlisted companies in 95 jurisdictions.

Adoption of IFRSs Means All

• **Ideal:** Simply use IFRSs
  – As issued by IASB. In full.
  – No need for local ‘endorsement’
  – Audit report refers to IFRS
  – But, sovereignty and political issues in some jurisdictions

• **Next best:**
  – Adopt all IFRSs word for word as national GAAP (local ‘endorsement’):
    – Sometimes adopted by law or regulation
    – Sometimes by professional body
Issues in Adoption of IFRSs

- **Problems in local ‘endorsement’**:  
  - Tinkering  
  - Time delays  
  - Cost  
  - What does audit report say?  
- **Sometimes ‘adapt’ rather than ‘adopt’**:  
  - Then this is no longer IFRS  
  - Audit report cannot refer to IFRS  
  - Financial statements less credible

What About the United States?

- **SEC authority to set accounting standards for public companies**  
  - Delegated to private sector (AICPA 1937-1972), then FASB since 1973  
- **Since 2008, the 1,200 foreign companies listed in US can use IFRSs without reconciliation to US GAAP.**  
- **SEC now studying whether to allow domestic registrants to use IFRSs**  
  - Published ‘Roadmap’ – decide in 2011?

Fortune Global 500 (July 2010)

| 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 |

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

<table>
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<tr>
<th>Comments</th>
<th>No. G500 co’s.</th>
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| China | Has adopted main IFRS principles | 46  
| India | Some differences with IFRSs expected | 8  
| Japan | Seriously considering 2015 or 2016 | 71 (54 J-GAAP & 17 US GAAP)  
| Russia |  | 6  
| Saudi Arabia |  | 1  
| Thailand |  | 1  
| USA | SEC Roadmap | 139 |
The International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs)

Copyright © 2010 IFRS Foundation | 30 Cannon Street | London EC4M 6XH UK | www.ifrs.org

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

Who Is Eligible to Use It?

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

Who Is the Standard Aimed At?

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 20 million
- UK: 4.7 million (99.6% under 100 employees)
- Hong Kong: 750,000
- Brazil: 6 million
- Malaysia: 1.8 million

The Public Interest

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

How Did We Simplify?

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
Disclosure Simplifications

**Big reduction in disclosures:**

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

Why Would an SME Want to Adopt It?

- **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
- **Reduced burden** for entities in jurisdictions where full IFRSs or full national GAAP are now required

Why Would an SME Want to Adopt It?

- **Other benefits:**
  - Lots of implementation help from the IASB
  - Examples later
  - Stability: Update only once every three years (if needed)
  - Textbooks available
  - Software available
  - Commercial training programmes

Jurisdiction Plans for Adoption

**Today (October 2010), to the best of our knowledge:**

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

Some examples:

- **South America:** Argentina, Brazil, Guyana, Suriname, Venezuela
- **Caribbean:** Bahamas, Barbados, Dominican Republic, Trinidad, etc
- **Central America:** Belize, Costa Rica, El Salvador, Nicaragua, Panama
- **Africa:** South Africa, Botswana, Egypt, Ethiopia, Namibia, Nigeria, Sierra Leone, Tanzania, Uganda

Jurisdiction Plans for Adoption

- **Asia:** Cambodia, Fiji, Hong Kong, Malaysia, Philippines, Singapore, Sri Lanka
- **Middle East:** Jordan, Lebanon
- **Europe:** United Kingdom (proposed), Ireland (proposed), Denmark, Latvia, Turkey. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs.
- **Available for use:** United States, Canada
Implementation Support from IASB

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

Monthly IFRS for SMEs Update Newsletter
- Free. Prepared by IASB staff.

Free Downloads from IASB

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
Update newsletter: http://www.ifrs.org/IFRS+for+SMEs/
Implementation Group Q&As: http://go.ifrs.org/smeig

In Conclusion

The IFRS for SMEs will result in:
- Better quality reporting
- Tailored for the capabilities of small companies
- Tailored for the needs of lenders and creditors
- Understandability across borders

If capital providers understand and have confidence in the financial figures, an SME’s ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.

Questions or comments?

Thank you for your attention.

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.