Adoption of IFRS in Global Scenario

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ABSTRACT

This paper aims to show overall position of the process of IFRS adoption worldwide as well as in India to harmonize the global financial accounting and reporting system. Worldwide homogeneous accounting standards have been set out by the IASB in form of IFRS. It is generally expected that worldwide adoption of IFRS will be beneficial to investors and other users of financial statements. Out of worldwide 140 jurisdictions as developed by IFRS Foundation, 116 jurisdictions require IFRS for all or most domestic publicly accountable entities in their capital markets. Of the 24 jurisdictions that do not require IFRS for all or most domestic publicly accountable entities, 14 already permit or require IFRS for at least some domestic publicly accountable entities. Only 10 jurisdictions currently do not require or permit IFRS for any domestic publicly accountable entities. One of those (Thailand) is in the process of adopting IFRS in full, and another (Indonesia) is in the process of convergence of its national standards with IFRS. The remaining eight that use national or regional standards are Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, the United States and Vietnam. Out of the 14 countries that have adopted IFRS for at least some (but not all) domestic publicly accountable entities, India is one of them.


1.0 Introduction

Recent days have witnessed the gradual process of revolutionary changes in global financial accounting and reporting system. From the recent past, international standard setters and regulators, such as the International Accounting Standard Board (IASB), began to advocate the use uniform system of financial accounting and reporting all over the world.

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To bring in uniformity in global financial accounting and reporting system, setting up a uniform set of accounting standards was essentially needed. International Financial Reporting Standards (IFRSs) are a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB), the standard-setting body of the IFRS Foundation. The IASB is an independent accounting standard setting body, based in London. It consists of 15 members from nine countries. In achieving international convergence of accounting standards, the IASB has been playing the most significant role. The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee (IASC). IASB is concerned with the development of accounting standards to be applied globally for increasing the international comparability of the financial information. Accordingly, worldwide homogeneous accounting standards have been set out by the IASB in form of IFRSs. The early 2000s witnessed a swift shift from using local, country specific accounting principles to adopting a globally accepted set of standards – IFRSs. IFRSs are a set of accounting standards which are becoming the global standard for the preparation of public company financial statements.

Following is the list of IFRSs so far issued by the IASB:

<table>
<thead>
<tr>
<th>IFRS No.</th>
<th>Name</th>
<th>Year of Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First-time Adoption of International Financial Reporting Standards</td>
<td>2008</td>
</tr>
<tr>
<td>IFRS 2</td>
<td>Share-based Payment</td>
<td>2004</td>
</tr>
<tr>
<td>IFRS 3</td>
<td>Business Combinations</td>
<td>2008</td>
</tr>
<tr>
<td>IFRS 4</td>
<td>Insurance Contracts</td>
<td>2004</td>
</tr>
<tr>
<td>IFRS 5</td>
<td>Non-current Assets Held for Sale and Discontinued Operations</td>
<td>2004</td>
</tr>
<tr>
<td>IFRS 6</td>
<td>Exploration for and Evaluation of Mineral Assets</td>
<td>2004</td>
</tr>
<tr>
<td>IFRS 7</td>
<td>Financial Instruments: Disclosures</td>
<td>2005</td>
</tr>
<tr>
<td>IFRS 8</td>
<td>Operating Segments</td>
<td>2006</td>
</tr>
<tr>
<td>IFRS 9</td>
<td>Financial Instruments</td>
<td>2014</td>
</tr>
<tr>
<td>IFRS 10</td>
<td>Consolidated Financial Statements</td>
<td>2011</td>
</tr>
<tr>
<td>IFRS 11</td>
<td>Joint Arrangements</td>
<td>2011</td>
</tr>
<tr>
<td>IFRS 12</td>
<td>Disclosure of Interests in Other Entities</td>
<td>2011</td>
</tr>
<tr>
<td>IFRS 13</td>
<td>Fair Value Measurement</td>
<td>2011</td>
</tr>
<tr>
<td>IFRS 14</td>
<td>Regulatory Deferral Accounts</td>
<td>2014</td>
</tr>
<tr>
<td>IFRS 15</td>
<td>Revenue from Contracts with Customers</td>
<td>2014</td>
</tr>
<tr>
<td>IFRS 16</td>
<td>Leases</td>
<td>2016</td>
</tr>
</tbody>
</table>
The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting. IFRS is sometimes confused with IAS (International Accounting Standards), which are older standards that IFRS has replaced. It is generally expected that worldwide adoption of IFRS will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investment opportunities and increasing the quality of information required. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would be most beneficial from a switch to IFRS.

2.0 Global Development in Adoption of IFRS

On 19 July 2002 a regulation was passed by the European Parliament and the European Council of Ministers requiring the adoption of IFRS: Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. As a result of the Regulation, all European Union (EU) listed companies were required to prepare their financial statements following IFRS from 2005. Accounting Standards convergent with the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) are made mandatory for European Union (EU) members to follow since 2005 and subsequently adopted by a large number of countries across the globe. The Australian Accounting Standards Board (AASB) has issued 'Australian Equivalents to IFRS' (A-IFRS), numbering IFRS standards as AASB 1–8 and IAS standards as AASB 101–141. Australian equivalents to SIC and IFRIC Interpretations have also been issued, along with a number of 'domestic' standards and interpretations. These pronouncements replaced previous Australian generally accepted accounting principles (Australian GAAP) with effect from annual reporting periods beginning on or after 1 January 2005 (i.e. 30 June 2006 was the first report prepared under IFRS-equivalent standards for June year ends). To this end, Australia, along with Europe and a few other countries, was one of the initial adopters of IFRS for domestic purposes. In South Africa, all companies listed on the Johannesburg Stock Exchange have been required to comply with the requirements of International Financial Reporting Standards since 1 January 2005. IFRSs are already used in many parts of the world, including the European Union, Russia, Australia, Hong Kong, Malaysia, Singapore, Pakistan, Chile, South Africa, Pakistan etc. Following EU and Australia, China has taken the path of IFRS adoption but in its new
domestic version called the Accounting Standards for Business Practices, which was
issued by its Ministry of Finance in Feb, 2006. The Minister for Financial Services in
Japan announced in late June 2011 that mandatory application of the IFRS should not
take place from fiscal year-ending March 2015; five to seven years should be required
for preparation if mandatory application is decided; and to permit the use of U.S. GAAP
beyond the fiscal year ending 31 March 2016.

To assess progress toward the goal of global accounting standards, the IFRS
Foundation has been developed regional profiles of application of IFRS in individual
jurisdictions. Currently, profiles are completed for 140 jurisdictions, including all of the
G20 jurisdictions. Aforesaid 140 jurisdictions represent all parts of the globe, which are
shown in Table 1 below.

Table 1: Regional profiles of application of IFRS in individual jurisdictions

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Jurisdictions</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>43</td>
<td>31%</td>
</tr>
<tr>
<td>Africa</td>
<td>19</td>
<td>14%</td>
</tr>
<tr>
<td>Middle East</td>
<td>9</td>
<td>6%</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>32</td>
<td>23%</td>
</tr>
<tr>
<td>Americas</td>
<td>37</td>
<td>26%</td>
</tr>
<tr>
<td>Totals</td>
<td>140</td>
<td>100%</td>
</tr>
</tbody>
</table>

Data Source: www.ifrs.org (2015), Analysis of the IFRS Jurisdiction profiles.

Out of worldwide above 140 jurisdictions, 116 jurisdictions (83 per cent of the
profiles) require IFRS for all or most domestic publicly accountable entities (i.e. listed
companies and financial institutions) in their capital markets. All, but one of those, have
already begun using IFRS; as Bhutan will begin using IFRS in 2021. Of the 24
jurisdictions that do not require IFRS for all or most domestic publicly accountable
entities in their capital markets, 14 already permit or require IFRS for at least some
domestic publicly accountable entities. Only 10 jurisdictions currently do not require or
permit IFRS for any domestic publicly accountable entities. One of those (Thailand) is in
the process of adopting IFRS in full, and another (Indonesia) is in the process of
converging its national standards substantially (but not entirely) with IFRS. The
remaining eight that use national or regional standards are Bolivia, China, Egypt,
Guinea-Bissau, Macao, Niger, the United States and Vietnam; although the IFRS
Foundation has been told that the Vietnamese Government has begun consideration of
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IFRS adoption. Regarding remaining 24 jurisdictions that have not adopted full IFRS, following positions are prevailing at present:

a. Twelve jurisdictions permit, rather than require. IFRS: Bermuda, Cayman Islands, Guatemala, Honduras, India, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland;

b. Two jurisdictions require IFRS for financial institutions but not listed companies: Saudi Arabia and Uzbekistan;

c. One jurisdiction is in process of adopting IFRS in full: Thailand;

d. One jurisdiction is in process of converging its national standards substantially (but not entirely) with IFRS: Indonesia; and

e. Eight jurisdictions use national or regional standards: Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, United States, Vietnam.

It has been observed by the IFRS Foundation that the auditor’s report refers to conformity with IFRS in 84 such jurisdictions; the auditor’s report refers to conformity with IFRS as adopted by the European Union in another 33 such jurisdictions; the auditor’s report refers to conformity with national standard in the 23 remaining such jurisdictions. Analysis of IFRS jurisdictions by GDP shows that capital market investors and lenders in jurisdictions with 58% of the world’s GDP receive IFRS financial statements (Data Source: www.ifrs.org (2015), Analysis of the IFRS Jurisdiction profiles).

Table 2 analyses the extent of adoption of IFRS in the 140 profiled jurisdictions by region of the world. It can be seen from the Table that, out of 140 worldwide regional jurisdictions, 116 countries have already adopted IFRS for all or most domestic publicly accountable entities; 14 countries have adopted IFRS for at least some (but not all or most) domestic publicly accountable entities; and 10 countries neither require nor permit IFRS for any domestic publicly accountable entities as on date. The 116 jurisdictions that require IFRS for all or most domestic publicly accountable entities include seven that have no stock exchange but that require IFRS for all financial institutions (Afghanistan, Angola, Belize, Brunei, Kosovo, Lesotho, Yemen). The relevant authority in all but 8 of the 140 jurisdictions (Belize, Bermuda, Cayman Islands, Egypt, Macao, Suriname, Switzerland and Vietnam) has made a public commitment to IFRS as the single set of global accounting standards. Even in the absence of a public statement, IFRS is commonly used by publicly accountable entities (listed companies and financial institutions) in Belize, Bermuda, Cayman Islands, and Switzerland (Data Source: www.ifrs.org (2015), Analysis of the IFRS Jurisdiction profiles).
Table 2: Extent of Adoption of IFRS in the 140 Profiled Jurisdictions by Region of the World

<table>
<thead>
<tr>
<th>Region</th>
<th>Jurisdictions in the region</th>
<th>Jurisdictions that require IFRS for all or most domestic publicly accountable entities</th>
<th>Jurisdictions that require IFRS as % of total jurisdictions in the region</th>
<th>Jurisdictions that permit or require IFRS for at least some domestic publicly accountable entities</th>
<th>Jurisdictions that neither require nor permit IFRS for any domestic publicly accountable entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>43</td>
<td>42</td>
<td>98%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Africa</td>
<td>19</td>
<td>15</td>
<td>79%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Middle East</td>
<td>9</td>
<td>8</td>
<td>89%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Asia-Oceania</td>
<td>32</td>
<td>24</td>
<td>75%</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Americas</td>
<td>37</td>
<td>27</td>
<td>73%</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>140</strong></td>
<td><strong>116</strong></td>
<td><strong>83%</strong></td>
<td><strong>14</strong></td>
<td><strong>10</strong></td>
</tr>
<tr>
<td><strong>As % of 140</strong></td>
<td><strong>100%</strong></td>
<td><strong>83%</strong></td>
<td><strong>10%</strong></td>
<td><strong>7%</strong></td>
<td></td>
</tr>
</tbody>
</table>


3.0 Status of USA regarding Adoption of IFRS

Although a large number of countries consider IFRS favourably, it is not necessarily the case in U.S. In late 2008, The Securities and Exchange Commission (SEC), USA published for comment a roadmap proposal for the potential use of financial statements prepared under IFRS by U.S. issuers. However, few practical steps have been taken since then to advance the adoption of IFRS in the U.S. and some observers are fairly pessimistic about the U.S. prospect of IFRS adoption. At the same time, the U.S. remains an important economic and financial power accounting for a lion’s share of the global market capitalization. When speaking of fair value accounting, the importance of the U.S. and IFRS-adopted countries to the global financial market creates a necessity to consider fair value as it pertains to both U.S. GAAP and IFRS. The Securities and Exchange Commission (SEC), USA, in 2007, announced that it would allow foreign
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companies to have access to US Capital Markets while reporting under IFRS, which in turn affected around 1,100 U.S. companies with US listings, along with any companies planning U.S. IPO’s. A roadmap for mandatory adoption of IFRS, in US, by 2016 has also been proposed by the SEC. The period from the year 2001 to 2008 might generally be characterized as a period of growing interest in adoption of IFRS in the USA; but the period from 2009 onward might be characterized as a period of declining interest in adoption of IFRS in the USA. In 2012, the SEC published a final staff report without providing a recommendation on IFRS adoption. In 2014, the former SEC Chair, Cox, expressed limited appetite for adoption of IFRS in the United States. The United States’ border neighbours have already adopted IFRS. Canada already adopted IFRS for nearly all 4,000 public companies since 2011 and Mexico already started application of IFRS since 2007. In Mexico, securities regulators adopted IFRS for all 480 listed companies other than banks effective in 2012. On the other hand, American investors have vast holdings of foreign securities, most of which report under IFRS. As of December 2013, US investors held $6.5 trillion of foreign corporate equity securities and $2.7 trillion of foreign corporate debt securities. On the flip side, as of June 2014, foreign investors held $6.4 trillion of US corporate equity securities and $9.2 trillion of US corporate debt securities. More than 500 foreign companies registered with the SEC provide US investors with IFRS financial statements without any reconciliation to US GAAP [Pacter (2015), The Global Reach of IFRS is Expanding, www.ifrs.org]. American bankers see IFRS financial statements every day in loan applications of foreign companies, US subsidiaries of foreign companies and foreign subsidiaries of US companies. Similarly, US auditors are engaged to audit many of these same companies. Thus, IFRS already has a big presence in the United States, despite that has not yet been adopted by the state. Hence, these figures and trends strongly suggest a need for common accounting standards in the United States and the rest of the world as well.

4.0 Status of Adoption of IFRSs in India

Out of the 14 countries those have adopted IFRS for at least some (but not all) domestic publicly accountable entities, India among them. The Institute of Chartered Accountants of India (ICAI) decided that the converged IFRS should be followed in India too for public interest entities. Accordingly, the ICAI published Indian Accounting Standards on convergence with IFRS (i.e. Ind ASs). Section 129 (1) of the Indian Companies Act, 2013 requires that the financial statements of a company shall comply with the accounting standards notified under Section 133. Ministry of Corporate Affairs (MCA), Govt. of India, by its Notification dated 16th February 2015, in exercise of the
powers conferred by section 133 read with section 469 of the Companies Act, 2013 in consultation with the National Advisory Committee on Accounting Standards, introduced a new accounting standard rules which is converged Indian Accounting Standards in the line of IFRS (i.e. Ind AS), Companies (Indian Accounting Standards) Rules, 2015. Hence, India has finally adopted IFRSs in its business reporting system. The ICAI has issued 39 Ind ASs so far, numbering IAS standards as Ind AS 1 to 41 (except 3, 4, 5, 6, 9, 11, 13, 14, 15, 18, 22, 25, 26, 30, 31, 35, 39) and IFRS standards as Ind AS 101 to 115. MCA till date has notified all these 39 converged Indian Accounting Standards (Ind. AS) in line of IFRS. Ind ASs will be applied in the process of preparation of financial reporting of some classes of Indian publicly accountable entities. As per MCA’s said notification dated 16.02.2015, first financial reporting on the basis of converged ASs (i.e. Ind ASs) of Indian companies will be mandatorily prepared on and from 31st March, 2017.

Ind ASs Applicable to the following Indian Companies:
1. Companies (Indian Accounting Standards) Rules, 2015 (i.e. application of Ind AS) shall be the accounting standards applicable to classes of companies specified in Rule 4 of the Companies Act, 2013.
2. Companies (Accounting Standards) Rules, 2006 shall be the accounting standards applicable to the companies other than the classes of companies specified in Rule 4 of the Companies Act, 2013.

- Exemptions: The insurance companies, banking companies and non-banking finance companies shall not be required to apply Ind AS for preparation of their financial statements either voluntarily or mandatorily as specified in sub-rule (1) of rule 4.

Target Application Schedule of Accounting Standards Rules, 2015:
A. For the accounting year 2015-16): Any company may prepare its financial statements either following Ind AS, 2015 or following AS, 2006.
B. On & from 01.04.2016 (i.e. from the accounting year 2016-17): Following companies must prepare their first financial statements strictly following Ind AS, 2015 on & from 01.04.2016 (i.e. from the accounting year 2016-17):
(a) Companies whose equity or debt securities are listed or in the process of listing on a stock exchange (other than SME Exchange) in India or abroad and having a net worth of Rs. 500 Crores or more; or
(b) Companies having a net worth of Rs. 500 Crores or more; or
(c) Holding, subsidiary, joint venture or associate companies of above two classes of companies.
C. On & from 01.04.2017 (i.e. from the accounting year 2017-18): Following companies must prepare their first financial statements strictly following Ind AS, 2015 on & from 01.04.2017 (i.e. from the accounting year 2017-18):

(a) Companies whose equity or debt securities are listed or in the process of listing on a stock exchange (other than SME Exchange) in India or abroad and having a net worth of Rs. 500 Crores or more; or

(b) Unlisted companies having a net worth of Rs. 250 Crores or more but less than Rs. 500 Crores; or

(c) Holding, subsidiary, joint venture or associate companies of above two classes of companies.

In addition, the following points may be noted:

1. While preparing financial statements for an accounting year following an AS Rule, comparative figures for the preceding accounting year are also to be disclosed following the same AS Rule.

2. Unlisted companies having a net worth of less than Rs. 250 Crores are not mandatorily required to prepare financial statements as per Ind AS (i.e. as per AS Rules, 2015).

3. Unlisted companies having a net worth of less than Rs. 250 Crores are not compulsorily required to follow Ind AS, but they may follow voluntarily. However, once financial statement of a company is prepared following Ind AS, either compulsorily or voluntarily, It shall be required to follow Ind AS for all the subsequent financial statements (i.e. once Ind AS is applied, it is irrevocable).

It is highly expected that the worldwide adoption of IFRSs will bring homogeneity in global financial reporting system and will attract more investors for investing their funds even in foreign capital markets. Hopefully, worldwide uniformity in financial accounting and reporting system will complete its circular path of prolong journey very soon with the legs of complete worldwide adoption of IFRSs.

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**Weblinks**

www.ifrs.org

www.simpletaxindia.net