

IFRS AS A TOOL FOR CROSS- BORDER FINANCIAL REPORTING

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Learning Outcomes

- What is IFRS?
- What is the IASB?
- The global move towards IFRS
- Requirements of IFRS & Terminology changes
- Benefits to users and preparers of financial statements
- Cross-border financial markets stabilisation
- Interpretation of IFRS
- Promoting cross-border investment
- Benefits to national regulators
- Conclusion



What is IFRS?

- International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements.



What is the IASB?

- The IASB is an independent accounting standard-setting body, based in London
- It consists of 15 members from nine countries, including the United States
- The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee
- It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world.



The global move towards IFRS

- Since 2001, approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies.
- Approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.
- The remaining major economies have established timelines for convergence with, or adoption of, IFRSs.



■ **Australia**

- 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

■ **European Union**

- All listed EU companies have been required to use IFRS since 2005

■ **Turkey**

- Turkish Accounting Standards Board translated IFRS into Turkish in 2006. Since 2006 Turkish companies listed in Istanbul Stock Exchange are required to prepare IFRS reports

■ **Canada**

- The use of IFRS will be required for Canadian publicly accountable profit-oriented enterprises for financial periods beginning on or after 1 January 2011.



■ India

- The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April 2011

■ South Africa

- All companies listed on the Johannesburg Stock Exchange have been required to comply with the requirements of IFRSs since 1 January 2005

■ United States of America

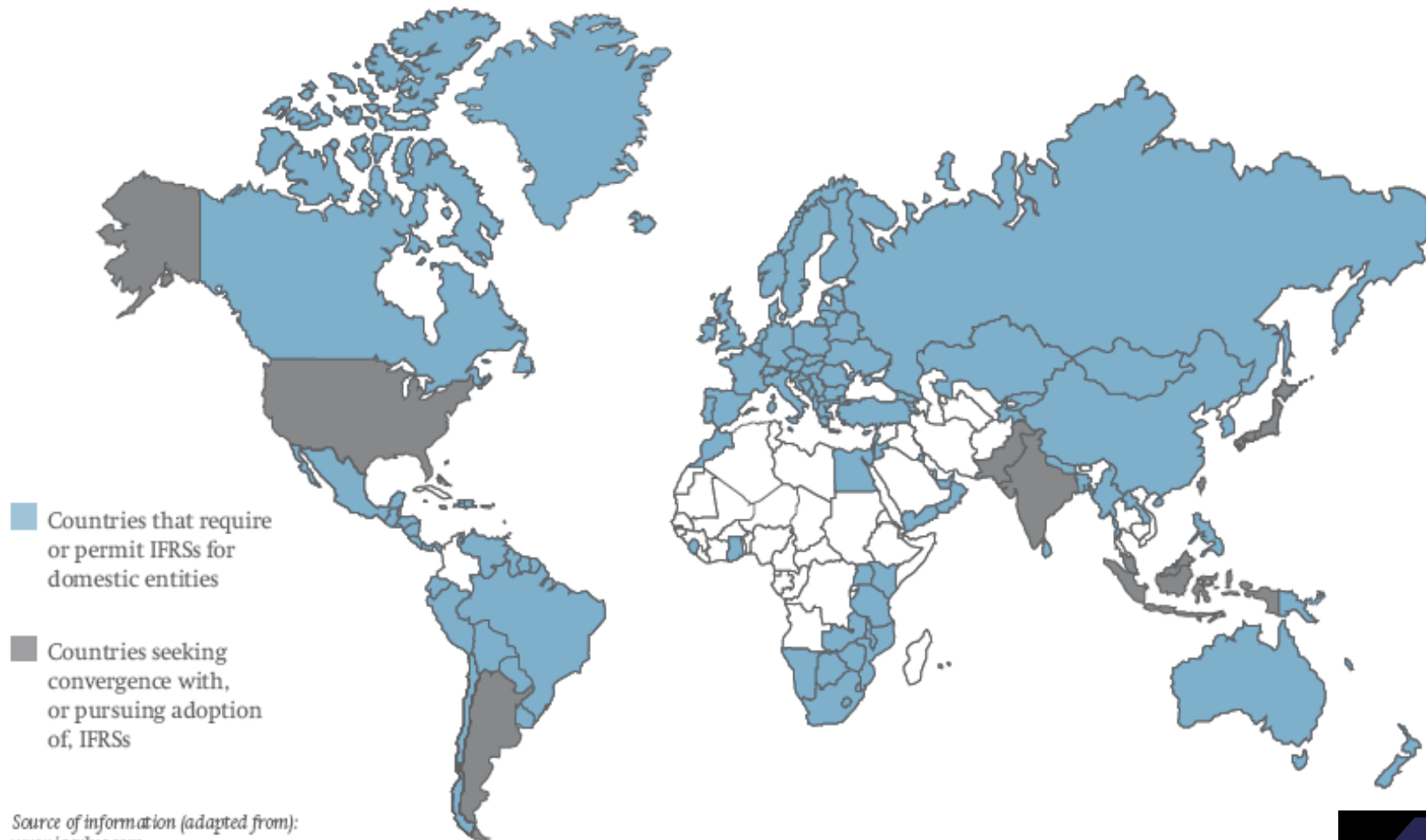
- The U.S. Securities and Exchange Commission has proposed to move to IFRSs by 2014

■ Nigeria

- Nigeria's NASB is yet to make public its decision whether or not to accept IFRS and the timeline for its adoption.



IFRS- fast becoming the globally accepted accounting framework



Source of information (adapted from):
www.iasplus.com



Requirements of IFRS

- IFRS financial statements consist of:
 - a Statement of Financial Position
 - a Statement of comprehensive income or two separate statements comprising an Income Statement and separately a Statement of comprehensive income
 - a Statement of changes in equity (SOCE)
 - a Statement of cash flows
 - notes, including a summary of the significant accounting policies
 - Comparative information is required for the prior reporting period.
 - An entity preparing IFRS accounts for the first time must apply IFRS in full for the current and comparative period although there are transitional exemptions.



Terminology changes

SAS	IFRS
Balance Sheet	Statement of Financial Position
Profit & Loss Account	Statement of Comprehensive Income (One Statement) or
-	Income Statement (separate) and Statement of Comprehensive Income (two statements)
-	'Other comprehensive Income' section of new Comprehensive Income Statement. 'Other Comprehensive Income' for short.
Statement of Cash flows	Statement of Cash flows
Recognized in the profit and loss	Recognised in profit or loss (Note or not and)
'On the face of'	'in'
'balance sheet date'	'end of reporting period'



Benefits to users and preparers of financial statements.

- By adopting IFRS, a business can present its financial statements on a single set of high quality, global accounting standards
- Our local standards are partly out of date and are not sufficiently comprehensive to form a basis for preparation of high quality financial statements.
- IFRS adoption will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets.
- Companies may also benefit by using IFRS if they wish to raise capital abroad.



Benefits (contd)

- By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier.
- Companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide.
- Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS, or if they have a foreign investor that must use IFRS.
- It will also assist local investors make better investment decisions



Cross-border financial markets stabilisation

- IFRS adoption will result in local financial statements that are readily understandable and acceptable in global markets
- Capital is mobile and can be moved freely within regulated markets
- Competing in wider markets is more profitable than competing in narrow, protected markets
- Globalisation is creating new opportunities for businesses worldwide
- A truly global reporting language will ensure that investors funds are moved easily within a global market
- Investor confidence will be increased as a result



Interpretation of IFRSs

- The body responsible for the interpretation of IFRSs is the IFRIC, now called the IFRS Interpretation Committee from 1 July, 2010.
- The IASC Foundation formally changed its name to the IFRS Foundation on 1 July, 2010.
- The Standards Advisory Council changed its to the IFRS Advisory Council on 1 July, 2010.
- IFRS are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments.



Interpretation of IFRSs

- IFRSs comprise:
 - *International Financial Reporting Standards (IFRS)*—standards issued after 2001
 - *International Accounting Standards (IAS)*—standards issued before 2001
 - *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC), now IFRS Interpretation Committee* —issued after 2001
 - *Standing Interpretations Committee (SIC)*—issued before 2001
 - *Framework for the Preparation and Presentation of Financial Statements*



Promoting cross-border investment

- IFRS adoption will improve cross border investment by enhancing:
 - comparability of financial statements prepared anywhere in the world
 - Foreign investors want financial statements that are comparable with those of similar businesses in other parts of the world, for strategic decision making in relation to mergers and acquisitions
 - Foreign investors will not require a higher return for foreign markets based on a difference in reporting language (GAAP vs. IFRS). This should decrease the cost of capital.



Benefits for national regulatory bodies

- The NASB, will be alert to best international practice (IFRS) to guide them in the establishment of improved reporting practices in Nigeria
- Our SASs are partly based on old IAS, some of which have since been amended or withdrawn by IASB
- SASs do not cover all the aspects of financial reporting encountered by preparers of financial statements
- Better ability to attract and monitor listings by foreign companies
- A higher standard of financial disclosure



Challenges posed by IFRS adoption

- **governance and financial sustainability** of the standard-setter
 - How can the IASB balance 'independence' and 'accountability'?
 - challenges of moving from voluntary donation funding model to a more stable platform

- **political/sovereignty** issues:
 - Europe sees itself as the 'biggest customer'
 - the IASB sees the US as the biggest prize
 - some countries are willing to adopt full IFRS without retaining some power to adopt/amend, others are not.



Challenges (contd)

■ **cultural** and **economic** factors

- can a single set of reporting standards truly meet the needs of economies at very different stages of development
- principles versus rules: a 'need for certainty' prevails in some jurisdictions
- use of fair value in emerging economies
- how to 'unlearn' previous GAAP
- capacity for change and change management
- diverging views on the purpose(s) of financial reporting



Paving the way for a global reporting language

- stability
- simplification
- understandability
- practicality
- even-handedness and responsiveness



Global convergence-Achievable?

- VERY much so:
 - not a foregone conclusion yet
 - achievable but not without compromises
 - it's a journey without a fixed date
- some of the challenges are generational e.g. in many countries new accountants are trained only in IFRS
- Strong enforcement mechanisms (laws and corporate governance systems) also are necessary

IASB should continue to work on stakeholder engagement, governance



Conclusion

- IFRS as a tool for cross-border reporting is here to stay and the future is quite positive
- Nigeria cannot be left behind
- The benefits of an IFRS conversion far outweigh the costs
- IFRS adoption is more than just conformity with the rest of the world
- In the not too distant future we are likely to see:
 - Suitability of IFRS in emerging economies
 - Displacement of US GAAP
 - Criticism of fair value accounting



Appendix

		Effective Date
IFRS 1	First time Adoption of IFRSs	1, July 2009
IFRS 2	Share-based Payment	1 January 2010
IFRS 3	Business Combinations	1 July 2009
IFRS 4	Insurance Contracts	1 January 2005
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
IFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 July 2009
IFRS 8	Operating Segments	1 January 2010
IFRS 9	Financial Instruments	1 January 2013

		Effective Date
IAS 1:	Presentation of Financial Statements.	1 January 2010
IAS 2:	Inventories	1 January 2005
IAS 7:	Cash Flow Statements	1 January 2010
IAS 8:	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2005
IAS 10:	Events After the Balance Sheet Date	1 January 2005
IAS 11:	Construction Contracts	1 January 1995
IAS 12:	Income Taxes	1 January 2001
IAS 16:	Property, Plant and Equipment	1 January 2009
IAS 17:	Leases	1 January 2010

		Effective Date
IAS 18:	Revenue	16 April 2009
IAS 19:	Employee Benefits	1 January 2009
IAS 20:	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 21:	The Effects of Changes in Foreign Exchange Rates	1 July 2009
IAS 23:	Borrowing Costs	1 January 2009
IAS 24:	Related Party Disclosures	1 January 2011
IAS 26:	Accounting and Reporting by Retirement Benefit Plans	1 January 1990
IAS 27:	Consolidated Financial Statements	1 January 2009
IAS 28:	Investments in Associates	1 July 2009
IAS 29:	Financial Reporting in Hyperinflationary Economies	1 January 2009

		Effective Date
IAS 31:	Interests in Joint Ventures	1 July 2009
IAS 32:	Financial Instruments: Presentation	1 February 2010
IAS 33:	Earnings Per Share	1 January 2009
IAS 34:	Interim Financial Reporting	1 January 2009
IAS 36:	Impairment of Assets	1 January 2010
IAS 37:	Provisions, Contingent Liabilities and Contingent Assets	1 July 1999
IAS 38:	Intangible Assets	1 July 2009
IAS 39:	Financial Instruments: Recognition and Measurement	1 January 2010
IAS 40:	Investment Property	1 January 2009
IAS 41:	Agriculture	1 January 2009



THANK YOU