

IFRS ROADMAP OR ``ALL ROADS LEAD TO.... CONVERGENCE? ``

DIANA DUMITRESCU, NICOLAE BOBITAN

FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION, WEST UNIVERSITY,
TIMISOARA, Str. J.H.Pestalozzi, nr. 16, 300115, Timișoara, diana.dumitrescu@feaa.uvt.ro
- FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION, WEST UNIVERSITY,
TIMISOARA, Str. J.H.Pestalozzi, nr. 16, 300115, Timișoara, nicolae.bobitan@feaa.uvt.ro

Abstract:

During the past several years, the move toward a single set of high quality, globally accepted accounting standards has gained momentum.

The survey focused on the existing and proposed IFRS guidelines and its anticipated 2016 IFRS adoption. The data collected supports a contention that the current time-line goals established by the different national boards for accounting standards for adoption of IFRS.

Building on literature reviewed, this paper analyzes the IFRS implementation, disputes the viability of the considerate time-line for IFRS adoption and integration. This paper seeks to answer the question: what is the proposed time-line for GAAP-IFRS integration and adoption in the countries involved and it is viable?

Key words: IFRS, GAAP, accounting standards, convergence

JEL classification: M41 – Accounting

Introduction

In the global market place, the competition for investors' dollars is waged without borders and stakeholders must have the ability to evaluate opportunities on a level playing field. Well over 100 countries have already adopted full (or some version of) IFRS as their Generally Accepted Accounting Principles (GAAP). The boards for standards the world over have set their own timetable for adapting IFRS and more and more countries have agreed to adopt the new standards as their national accounting standards in the future. Many countries have recognized the need for convergence of accounting standards and are moving towards its implementation whilst others are more passive in their approach, perhaps having issues too complex to resolve or have not comprehended the importance of IFRS.

However, key regions such as India, China, Japan, Canada, United Kingdom and United States have all taken steps recently to IFRS adoption, albeit on an extended timeline and with a few provisos.

This paper seeks to answer the question: what is the proposed time-line for GAAP-IFRS integration and adoption in the countries involved and it is viable?

Key regions involved in IFRS adoption

INDIA

Moving east, there was some concern regarding **India's** commitment to IFRS when the Indian government backed down on enforcing currency translation rules on Indian corporations holding large U.S. debt. The fact that the ruling was a few months prior to the Indian election was not lost on many. However, with the government now well entrenched, India has announced a plan to adopt IFRS as Indian

Financial Reporting Standards effective 1 April 2011 for all listed and ‘large’ private companies. Other medium-sized companies will follow in 2013 and smaller organizations in 2014. The European Commission (EC) has allowed Indian companies that have listed their global depository receipts (GDRs) on European exchanges time till December 2014 to adopt accounting rules known as international financial reporting standards (IFRS). More than 150 nations have adopted IFRS, developed by the International Accounting Standard Board (IASB), an independent, privately funded standards body based in London. More than 350 Indian GDR securities sold by companies including Reliance Industries Ltd, ITC Ltd, State Bank of India, Larsen and Toubro Ltd, Steel Authority of India Ltd, Axis Bank, Tata Power Ltd, Tata Steel Ltd, Cipla Ltd, Ranbaxy Laboratories Ltd are traded on European exchanges. The Ministry of Corporate Affairs (MCA) a part of the Government of India had in January 2010 announced a multi-phase plan for transition beginning April 1, 2011 to the new Converged Indian Accounting Standards (India’s attempt to converge to IFRS, which has carve outs that distinguish it from IFRS, and is now known as “Ind AS”). The MCA has finalized thirty-five Ind AS in February 2011. The actual date of application of these Ind AS is yet to be notified. These standards will need to be incorporated in to law by amendments to the Companies Act which is yet to happen. While these standards are similar to IFRS in many respects, some exemptions / changes have been made to some of them which may result in significant differences between IFRS and Ind AS for some companies. For instance the standards equivalent to IAS 26, IAS 41, IFRS 9, IFRIC 2 and IFRIC 15 are yet to be issued while the application of IFRS 4, IFRS 6, IFRIC 4, IFRIC 12 and SIC 29 has also been deferred. Please refer to the PwC India website for the latest on the matter, and a publication that compares Ind AS to IFRS.

There is a process initiated by the Indian standard setters to study and expose for comments the new developments in IFRS, and this is to enable the convergence process to continue at some point in the future.

Until the applicability of Ind AS is clarified, the original application date of April 1, 2011 is in question and companies must continue to report under Indian GAAP. The original transition plan is as follows (pending clarification on revisions to the date of application):

Phase I (Companies moving from April 1, 2011)

- Companies on the BSE Sensex 30 and NSE Nifty 50
- Companies having listed securities outside of India
- Companies having net worth in excess of Rs. 1000 crores (USD 222 million approx) as computed on March 31, 2009, computed based on standalone entity financial statements per original Indian GAAP.
- Insurance companies are scheduled to transition on April 1, 2012.

Phase II (Companies moving from April 1, 2013)

- Companies with net worth in excess of Rs. 500 crores (USD 111 million approx).
- Non Banking finance companies (“NBFC”) on the NSE – Nifty 50 or BSE – Sensex 30, non listed NBFC with net worth above Rs. 1000 crores (USD 222 million approx)
- Commercial banks and urban co-operative banks with net worth above Rs. 300 crores (USD 67 million approx)

Phase III (Companies moving from April 1, 2014)

- Listed companies having net worth of Rs. 500 crores (USD 109 million approx) or less.
- Urban co-operative banks having a net worth in excess of Rs. 200 crores (USD 44 million approx) but not exceeding Rs.300 crore (USD 67 million approx)

CHINA

In **China**, the Chinese Accounting Standards for Business Enterprises (ASBE) already encompasses many of the principles of IFRS. CAS (Chinese Accounting Standards) have somewhat converged with IFRS. However, it is not a direct translation of IFRS. Several differences remain between CAS and IFRS; however, as time goes by, the Ministry of Finance has plans to eliminate those differences. The China standard setter issued Chinese Accounting Standards in 2006 (effective from January 1, 2007) and, in many ways, these standards are converged with IFRS. While there are still some differences between CAS and IFRS, the Ministry of Finance have plans to further converge CAS with IFRS in the near future. Note that the China standard setter has not announced any adoption or convergence plans to IFRS for SMEs. The Ministry of Finance published a roadmap late last year that will complete ASBE convergence to IFRS by 2011. All medium to large organizations will be required to use this revised set of standards by 2012. Naturally, many of the largest organizations in China already have adopted IFRS, particularly those which are listed on the Hong Kong Stock Exchange.

JAPAN

Japan is probably the only other country besides the U.S. that feels their existing set of financial standards are equivalent, if not at times superior, to IFRS. However, the Financial Services Authority (FSA) of Japan announced initially that certain listed companies could use IFRS instead of Japanese GAAP for financial years ending on or after 31 March 2010. In addition, the deputy head of the FSA provided a roadmap to IFRS, the final decision of which will be made in 2012 with allowance of 3-4 years lead time prior to mandatory adoption. While this represents somewhat less than a 'commitment' to IFRS, it does represent the most significant step we have seen in Japan on convergence so far. Listed companies which meet certain requirements ("Specified Companies") are permitted to use IFRS for their consolidated financial statements ending on or after March 31, 2010, as per Regulations for Consolidated Financial Statements revised by the Financial Services Agency (FSA) of Japan in December 2009. The Commissioner of the FSA will designate those IFRS published by the IASB which are recognized as having been approved and issued through fair and reasonable due process and are expected to be considered as being fair and appropriate financial reporting standards from the viewpoint of investor protection and market integrity in Japan.

The roadmap approved by the Business Accounting Council (BAC: an advisory body to the FSA) in June 2009 indicated that mandatory adoption of IFRS may start in 2015 or 2016, subject to the final decision which is to be made around 2012. Since June 2011, the meetings of BAC have deliberated about use of IFRS in Japan to reach the consensus of BAC members.

Standalone/separate financial statements are prepared in accordance with Japanese GAAP. In June 2011, the Accounting Standards Board of Japan (ASBJ: the Japanese standard setter) and the IASB announced their achievements under "The Tokyo Agreement" which targeted June 2011 to reduce differences in specific items between Japanese GAAP and IFRS. The ASBJ will issue new Japanese GAAP in line with the new IFRS are issued in the future.

In 2011 the Japanese government said it is delaying the road map towards adoption of IFRS for publicly traded companies as a result of concerns over additional cost for already struggling Japanese companies that since the earthquake and tsunami hit Japan, business leaders have opposed the introduction of IFRS by the 2015/16 government deadline, businesses are saying that the adoption of IFRS would result in

extra investment and administrative costs for companies damaged by the disaster. So, Japanese companies currently report under Japanese GAAP and before the announced delay a road map was put in place by the Japanese Financial Services Agency (FSA) that would make it mandatory for Japanese public companies to report under IFRS in 2015 or 2016.

Due to the global nature of our economy, continued convergence between U.S. GAAP and IFRS is almost unavoidable. Many companies, therefore, will have to confront questions regarding their conversion readiness, including financial statement impact, cost of conversion and timeline management. With all these issues pulling them in different directions, many are experiencing a problematic paralysis when faced with today's local financial reporting challenges and potentially complex global realities of the future. Taking the opportunity to develop a long-term plan can help avoid surprises while continuing to build investor confidence.

CANADA

Required for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011 with the exception of the entities listed below. Early adoption (prior to 2011) permitted for consolidated and standalone financial statements on application to securities regulators. However, US GAAP continues to be acceptable for US listed issuers.

a. Investment companies or segregated accounts of life insurance companies

In January 2011, the Canadian Accounting Standards Board (AcSB) approved a one year extension to the optional one year deferral from IFRS adoption for investment companies applying Accounting Guideline AcG-18, Investment Companies or the standalone financial statements for segregated accounts of life insurance enterprises, applying Life Insurance Enterprises - SPECIFIC ITEMS, Section 4211, in Part V of the Handbook*(the "Handbook" throughout this document refers to the handbook issued by the Canadian Institute of Chartered Accountants that sets out information pertaining to accounting practices and processes in Canada). Investment companies and segregated funds will now be required to adopt IFRS for interim and annual financial statements relating to annual periods beginning on or after January 1, 2013. Investment companies that are also Reporting Issuers under the Canadian Securities Administrators requirements will be required to apply for exceptive relief from their securities regulator if they do not plan on taking the deferral and therefore will publish IFRS-compliant financial statements for the first time for interim or annual periods commencing on or after January 1, 2011 or January 1, 2012.

b. Entities that have activities subject to rate regulation

The AcSB has also concluded that there will be a one year optional deferral to allow eligible qualifying entities with rate regulated activities to defer adoption of IFRSs until fiscal years commencing on or after January 1, 2012. The deferral applies to the consolidated financial statements of parents of qualifying entities with rate-regulated activities, but does not extend to the financial statements of any subsidiaries that do not, themselves, qualify to use the deferral. The Canadian Securities Administrators (CSA) have provided additional exceptive relief to Canadian listed companies that have applied for relief. These exemptions permit the filer to prepare its financial statements in accordance with U.S GAAP for its financial years that begin on or after January 1, 2012 but before January 1, 2015. The Accounting Standards Board approved the incorporation of International Financial Reporting Standards into Part I of the Canadian Institute of Chartered Accountants ("CICA") Handbook without modification. First-time adoption of this Part of the Handbook by publicly accountable enterprises, and by private enterprises that have chosen to adopt this Part, is mandatory for interim and

annual financial statements relating to annual periods beginning on or after January 1, 2011. This Part may be adopted for fiscal years beginning prior to that date.

The Accounting Standards Board has approved the standards set out in Part II of the CICA Handbook.

United Kingdom

The UK ASB has incorporated some IFRS into UK GAAP. Certain of the standards apply only to some entities. For example, the UK equivalent of IAS 39 (Financial Instruments: Recognition and Measurement) is only mandatory for those who want to use the fair value option and listed entities.

The ASB has issued an exposure draft of a comprehensive standard that will fundamentally change corporate reporting for UK entities that are not currently applying EU-adopted IFRS. The ASB proposes a three-tier structure, along with reduced disclosure concessions for qualifying subsidiaries. Tier 1 is entities that are currently required to apply EU-adopted IFRS under law. Tier 2 is all other entities which apply UK-adopted IFRS for SMEs or IFRS. Tier 3 is small entities eligible to apply FRSS (Financial Reporting Standard for Smaller Entities). The exposure draft comment period ended on April 30, 2011. A final standard is expected in 2012 and is expected to be effective for periods starting on or after January 1, 2014. Early adoption will be permitted. IFRS is required for consolidated financial statements. Parent companies can choose to apply IFRS or UK GAAP. Choosing to prepare IFRS does not mean that all other UK entities within the group need to prepare IFRS. These entities can stay with UK GAAP. If IFRS is adopted by one UK subsidiary, it should be adopted by all UK subsidiaries unless there are good reasons not to do so. Once IFRS is adopted, entities generally cannot go back to UK GAAP.

USA

The SEC released a Strategic Plan to 2015, which included a goal of supporting a single set of accounting standards. While this falls somewhat short of a commitment for mandatory IFRS adoption for U.S. companies, it does illustrate that the SEC must be seen as pursuing convergence with some kind of roadmap for adoption. Meanwhile, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have been meeting with urgency to try and resolve differences in the accounting standards.

In 2002, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) began to work towards the goal of converging U.S. GAAP and IFRS. A 2002 memorandum of understanding issued by the two organizations set forth the goal of developing a single set of high-quality global accounting standards, *Agreement between FASB and IASB on a plan to formally undertake efforts to converge U.S. GAAP and IFRS (the “Norwalk Agreement”)*.

In 2004, *European Commission updated begins project on “equivalence” of national GAAPs and IFRS.*

In 2005, *European Commission issues draft report on “equivalence” of national GAAPs and IFRS and Development of the SEC “IFRS Roadmap” by then Chief Accountant Don Nicolaison.*

In 2006, the two organizations updated the 2002 memorandum to improve the convergence process, *reaffirmation of the convergence efforts by the FASB and IASB: Norwalk Agreement is Updated and SEC and Committee of European Securities Regulators (CESR) launch the “SEC/CESR Work Plan” to address application issues relating to the implementation of IFRS.*

In 2007, *SEC eliminates the requirement for foreign private issuers that use IFRS to reconcile to U.S. GAAP and SEC issues “Concept Release” on allowing U.S.*

issuers a choice between IFRS and U.S. GAAP Final report on the “equivalence” of national GAAPs and IFRS.

The 2006 memorandum was updated again in 2008 to pinpoint certain convergence projects that the FASB and IASB believed were essential to the convergence process, *expected issuance of SEC “proposing release” on allowing U.S. issuers a choice of preparing financial statements under either IFRS or U.S. GAAP.* In August 2008, the SEC’s own proposed roadmap outlined key activities that must occur before the SEC will require U. S. filers to adopt IFRS fully.

A G-20 meeting in 2009 requested that the FASB and IASB continue with the convergence process with a goal completion date of 2011.

To this end, in November 2009, the FASB and the IASB reaffirmed their commitment to improve IFRS and U.S. GAAP and bring about their convergence by intensifying efforts to complete the projects described in the 2006 memorandum by June 2011. In addition, the FASB and the IASB stated their desire to improve efficiency and effectiveness in the convergence process by agreeing to monthly meetings and quarterly progress reports on convergence projects.

According to the original roadmap, starting in 2011, *U.S. issuers potentially have the ability to use IFRS for SEC reporting purposes* but the SEC would evaluate the progress of these key activities and determine whether or not companies would begin to report financial statements using IFRS beginning in 2014, the organizations stated target date. This roadmap also allowed for early adopters to begin filing statements in 2010. In February 2009, these plans and target dates were put on an indefinite hold and the SEC has since issued a statement pushing the deadline to 2015-2016.

Conclusion

The destination is clear, but the arrival date is unknown. Given these conditions, the problem is what is the best route, the choice between a rapid conversion — the superhighway — and a more leisurely pace — the scenic route — will hinge on many factors, including your business size and footprint, strategy and plans, risk appetite, and corporate culture, along with regulatory measures and your competitors’ actions. Both routes will get you there, albeit with the high speeds of the superhighway potentially impacting the efficiency and safety of the journey.

Global companies with aggressive competitors may wish to accelerate as quickly as regulations allow. Conversely, domestic organizations with a conservative philosophy may be content with a leisurely pace, bypassing any optional adoption dates to wait for a mandatory deadline.

Generally speaking, a superhighway approach is characterized by a relatively short timeframe, simultaneous conversion of all reporting entities, dedicated project teams, and commitment of significant resources. Conversely, a scenic route approach is conducted over a more extended period, with phased conversion of reporting entities, with at least some personnel retaining their “day job” duties, and with a spreading out of project costs.

Regardless of which road will be chosen, the primary objectives should be the same as they would be for any journey: arrive safely and on time, as efficiently as possible.

BIBLIOGRAPHY

1. http://www.ifrs.com/updates/aicpa/IFRS_SEC.html

2. *About us: Who we are and what we do*, International Accounting Standards Board, viewed 1 June 2010, <http://www.iasb.org/The+organisation/IASCF+and+IASB.htm>
3. American Institute of CPAs 2010, *IFRS Readiness Tracking Survey*, viewed 10 July 2010, <http://www.aicpa.org>
4. CICA, *IFRSs in Canada*, < <http://www.cica.ca/IFRS/>>
5. Defelice, A. & Lamoreaux, M. 2010, *No IFRS requirement until 2015 or later under new SEC timeline*, viewed 28 March 2010, <http://www.journalofaccountancy.com>
6. Deloitte, < http://www.deloitte.com/view/en_GX/global/index.htm>
7. FASB, <http://www.fasb.org/home>
8. *IFRS Roadmap*, <http://www.iasplus.com/usa/0907ifrsroadmap.pdf>
9. IFRS, < <http://www.ifrs.org/Home.htm>>
10. KPMG, < <http://www.kpmg.com/ro/en/pages/default.aspx>>
11. PWC, *IFRS adoption by country*, < <http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption>>viewed 22 June 2010, from Social Science Research Network: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1357331>Where Will the SEC Take the IFRS Roadmap?
12. Winney,K. & Marshall,D. & Bender, B. and Swiger,J. 2010, *Accounting Globalization: Roadblocks to IFRS Adoption in the United States, from Global Review of Accounting and Finance*, viewed September 2010, < <http://wbiaus.org/11.%20Kathryn.pdf>>