UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Practical implementation of international financial reporting standards: Lessons learned

Country case studies on IFRS

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Preface

For over three decades, the United Nations has been contributing to the global efforts aimed at promoting transparent corporate accounting and reporting. The need for a global set of high-quality financial reporting standards has been apparent since the early 1970s. The existence of a global benchmark enables direct comparison of corporate financial reports between jurisdictions. Such high-quality standards enhance investor's confidence by allowing economic transactions of a similar nature to be treated and reflected in the same manner around the globe. What was only a vision three decades ago has now become a reality. As of the beginning of 2005, over 100 countries, including the European Union, either require or permit use of international financial reporting standards (IFRS) for preparation of financial statements by enterprises in their respective jurisdictions.

The full benefits of such a global benchmark will be realized only when it is implemented around the world in a consistent manner. Many developing countries and countries with economies in transition lack the accounting infrastructure and professional institutions needed for building the technical capacity required to meet the challenges posed by the transition to a common set of global standards – standards that are formulated with developed markets in mind and which have been becoming increasingly sophisticated.

In light of these important developments, UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been deliberating on practical challenges that arise in the implementation of IFRS. In particular, during the twenty-third and twenty-fourth sessions of ISAR, country case studies were discussed with a view to facilitating sharing of experiences and important lessons learned among member States.

This publication has been prepared to disseminate the lessons learned to a wider audience. As a growing number of developing countries and countries with economies in transition are embarking on the IFRS implementation process, the need for sharing experiences and lessons learned is becoming even more vital. It is my hope that policymakers, regulators, standard-setters and educators will find this publication to be a timely reference and a useful tool as they go about tackling practical implementation challenges of IFRS.

Supachai Panitchpakdi

Secretary-General of UNCTAD
August 2008

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Executive summary

As of the beginning of 2005, the global corporate financial reporting landscape has been transformed in a major way – an unprecedented number of countries and enterprises around the world adopted international financial reporting standards (IFRS) as basis for the preparation of financial statements. All member States of the European Union have adopted IFRS endorsed in the European Union for the preparation of consolidated financial statements of listed companies in their respective jurisdictions. The benefits of a common set of high-quality financial reporting standards are very significant. Nevertheless, depending on the general economic situation, existing regulatory framework and financial reporting tradition of a given member State, practical implementation of IFRS poses considerable challenges. These practical challenges relate to the coherence of the regulatory framework and the state of preparation of relevant institutions, enforcement and technical capacity.

When IFRS are adopted in a given jurisdiction, they become part of existing laws and regulations. However, the provisions of relevant national laws and regulations might not be amended in due time to recognize the introduction of IFRS. In some cases, situations arise where IFRS requirements contradict applicable provisions in national laws and regulations. Relevant institutions needed for ensuring a smooth transition to a global set of financial reporting standards might be inexistent or weak. Rigorous enforcement of such global standards at the national level poses practical challenges due to absence of adequately resourced enforcement institutions and lack of adequate coordination mechanisms among relevant institutions.

Many member States, particularly developing countries and countries with economies in transition, lack a critical mass of competent accountants and auditors capable of applying highly sophisticated and voluminous global standards such as IFRS. In general, training materials on IFRS are scarce, particularly in languages other than English. Furthermore, proper application of certain measurement requirements in IFRS requires input from competent professionals in other areas such as actuary, property valuation and others. Lack of technical capacity poses a significant barrier to the successful implementation of IFRS.

Since 2005, UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been deliberating on practical implementation challenges of IFRS. The first chapter of this publication contains details of major practical implementation challenges and lessons learned from the experiences of members States that have embarked on the implementation process of IFRS. The remaining chapters, i.e., II–IX, contain country case studies of Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey.

Introduction

UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has recognized the growing number of member States that are introducing international financial reporting standards (IFRS) as basis for the preparation of corporate financial reports by enterprises in their respective jurisdictions. In light of this development, the Group of Experts devoted substantial time during its recent sessions to deliberating on the practical challenges that arise in the implementation of IFRS. ISAR's deliberations on this topic at its twenty-third and twenty-fourth sessions were facilitated by a number of country case studies conducted in different regions of the world.

In concluding its twenty-fourth session, ISAR requested the UNCTAD secretariat to prepare a publication that synthesized the lessons learned in the practical implementation of IFRS by reviewing the country case studies that the Group of Experts discussed at its twenty-third and twenty-fourth sessions. Accordingly, the UNCTAD secretariat has prepared this publication. The remaining part of this section provides background information on ISAR's work in this area, with a view to providing readers with the context to this publication.

For over three decades, the United Nations has contributed to global efforts aimed at promoting comparable and reliable corporate reports. In 1973, the Secretary-General of the United Nations convened a group of eminent persons that recommended the creation of an internationally comparable system of standardized accounting and reporting. After a series of deliberations on this issue, the Economic and Social Council of the United Nations established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) in October 1982 by resolution 1982/67.

Through ISAR, which is the only intergovernmental group at the international level that deals with corporate accounting and reporting, UNCTAD has contributed to the international debate on harmonization of accounting requirements, with a view to facilitating understanding of the implementation challenges faced by developing countries and countries with economies in transition. UNCTAD has assisted these countries in identifying and implementing internationally recognized good practices.

Many developing countries and countries with economies in transition strive to mobilize financial resources from domestic and international sources to attain their economic and social development goals. The availability of relevant information on potential investment targets has a bearing on efforts to mobilize investment for financing economic and social development. Such information plays an important role in making critical investment decisions and conducting risk assessment. It also contributes to improved investor confidence and decreased cost of capital. Over the years, attracting financing needed for economic development has become more competitive. Economic resources have become more mobile across borders. Enterprises that provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment.

Recognizing the significant influence that corporate reporting has on investment decisions, developing countries and countries with economies in transition are attaching greater importance to transparency in corporate accounting and reporting. They are making efforts to strengthen the various components of the accounting infrastructure in their respective jurisdictions so that financial resources can be mobilized and used more efficiently. However, different countries have been using different national accounting standards, making it difficult and costly to compare investment opportunities in different countries. In addition, the faster pace of globalization, the growing interdependence of international financial markets and the increased mobility of capital have added to the pressure and demand for the harmonization of accounting and financial reporting frameworks and related standards around the world.

The need for a global set of high-quality financial reporting standards has long been apparent. The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as international financial reporting standards (IFRS).

The process gained speed when the International Organization of Securities Commissions (IOSCO) endorsed the IASC standards for international listings in May 2000. It was further facilitated by a regulation approved in the European Union in 2002 required the preparation of consolidated (group) accounts of listed companies domiciled in the European Union in accordance with endorsed IFRS. Since then, many more countries have announced their plans to transition to IFRS, in some instances extending the scope of application beyond group accounts to legal entities and incorporating IFRS into their national regulatory frameworks.

At UNCTAD's tenth quadrennial conference in Bangkok, member States requested that the organization "promote increased transparency and disclosure by encouraging the use of internationally recognized accounting, reporting and auditing standards and improved corporate governance" (para. 122 of the Bangkok Plan of Action). At the eleventh conference in Sao Paulo, Brazil, member States reaffirmed the Bangkok Plan of Action and requested that UNCTAD "collect, analyse and disseminate data on best practices for stimulating enterprise development and identifying ways and means for enterprises, especially developing countries' SMEs, to meet international standards, including accounting standards" (para. 55 of the Sao Paulo Consensus).

At UNCTAD's twelfth quadrennial ministerial conference that took place in Accra in April 2008, member States called upon UNCTAD and ISAR to help developing countries and countries with economies in transition in building the necessary capacity and institutions needed