INTRODUCTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. INTRODUCTION

International Accounting Standards (IAS), now renamed International Financial Reporting Standards (IFRS), are gaining acceptance worldwide. This section discusses the extent to which IFRS are recognized around the world and includes a brief overview of the history and key elements of the international standard-setting process.

2. WORLDWIDE ADOPTION OF IFRS

2.1 In the last few years, the international accounting standard-setting process has been able to claim a number of successes in achieving greater recognition and use of IFRS.

2.2 A major breakthrough came in 2002 when the European Union (EU) adopted legislation that requires listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005 and applies to more than 7,000 companies in 28 countries, including countries such as France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS replace national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe.

2.3 Outside Europe, many other countries are also moving to IFRS. In 2005, IFRS had become mandatory in many countries in Southeast Asia, Central Asia, Latin America, Southern Africa, the Middle East, and the Caribbean. In addition, countries such as Australia, Hong Kong, New Zealand, Philippines, and Singapore had adopted national accounting standards that mirror IFRS. It was estimated that more than 70 countries required their listed companies to apply IFRS in preparing and presenting financial statements in 2005.

Countries that have Adopted IFRS

Countries in which some or all companies are required to apply IFRS or IFRS-based standards are listed below.

Africa:
- Egypt, Kenya, Malawi, Mauritius, Namibia, South Africa, Tanzania

Americas:
- Bahamas, Barbados, Costa Rica, Dominican Republic, Ecuador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Peru, Trinidad and Tobago, Venezuela

Asia:
- Armenia, Bahrain, Bangladesh, China, Georgia, Hong Kong, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Nepal, Oman, Philippines, Qatar, Singapore, Tajikistan, United Arab Emirates

Europe:
- Austria, Belgium, Bosnia, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovenia, Slovak Republic, Spain, Sweden, Ukraine, United Kingdom, Yugoslavia

Oceania:
- Australia, New Zealand, Papua New Guinea

2.4 The adoption of standards that require high-quality, transparent, and comparable information is welcomed by investors, creditors, financial analysts, and other users of financial statements.
Without common standards, it is difficult to compare financial information prepared by entities located in different parts of the world. In an increasingly global economy, the use of a single set of high-quality accounting standards facilitates investment and other economic decisions across borders, increases market efficiency, and reduces the cost of raising capital.

3. REMAINING EXCEPTIONS

3.1 Measured in terms of the size of their capital markets, the most significant remaining exceptions to the global recognition of IFRS are the United States (US), Japan, and Canada. In these countries, entities continue to be required to follow local accounting standards.

3.2 The International Accounting Standards Board (IASB), the body in charge of setting IFRS, works closely with the national accounting standard-setting bodies in these countries, including the US Financial Accounting Standards Board (FASB) and the Accounting Standards Board of Japan (ASBJ), to narrow the differences between local accounting standards and IFRS. In Canada, a proposal for conforming local accounting standards to IFRS has been published.

3.3 In the US, the domestic securities regulator (Securities and Exchange Commission, SEC) has developed a roadmap for eliminating the current requirement for non-US companies that raise capital in US markets to prepare a reconciliation of their IFRS financial statements to US Generally Accepted Accounting Principles (US GAAP).

4. THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

From 1973 until 2001, the body in charge of setting the international standards was the International Accounting Standards Committee (IASC). The principal significance of IASC was to encourage national accounting standard setters around the world to improve and harmonize national accounting standards. Its objectives, as stated in its Constitution, were to

- Formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance
- Work generally for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements

4.1 IASC and the Accounting Profession

IASC always had a special relationship with the international accounting profession. IASC was created in 1973 by agreement between the professional accountancy bodies in nine countries, and, from 1982, its membership consisted of all those professional accountancy bodies that were members of the International Federation of Accountants (IFAC), that is, professional accountancy bodies in more than 100 countries. As part of their membership in IASC, professional accountancy bodies worldwide committed themselves to use their best endeavors to persuade governments, standard-setting bodies, securities regulators, and the business community that published financial statements should comply with IAS.

4.2 IASC Board

The members of IASC (i.e., professional accountancy bodies around the world) delegated the responsibility for all IASC activities, including all standard-setting activities, to the IASC Board. The Board consisted of 13 country delegations representing members of IASC and up to four other organizations appointed by the Board. The Board, which usually met four times per year, was supported by a small secretariat located in London, the United Kingdom.

4.3 The Initial Set of Standards Issued by IASC

In its early years, IASC focused its efforts on developing a set of basic accounting standards. These standards usually were worded broadly and contained several alternative treatments to accommodate the existence of different accounting practices around the world. Later these standards came to be criticized for being too broad and having too many options.
4.4 Improvements and Comparability Project

Beginning in 1987, IASC initiated work to improve its standards, reduce the number of choices, and specify preferred accounting treatments in order to allow greater comparability in financial statements. This work took on further importance as securities regulators worldwide started to take an active interest in the international accounting standard-setting process.

4.5 Core Standards Work Program

4.5.1 During the 1990s, IASC worked increasingly closely with the International Organization of Securities Commissions (IOSCO) on defining its agenda. In 1993, the Technical Committee of IOSCO held out the possibility of IOSCO endorsement of IASC Standards for cross-border listing and capital-raising purposes around the world and identified a list of core standards that IASC would need to complete for purposes of such an endorsement. In response, IASC in 1995 announced that it had agreed on a work plan to develop the comprehensive set of core standards sought after by IOSCO. This effort became known as the Core Standards Work Program.

4.5.2 After three years of intense work to develop and publish standards that met IOSCO’s criteria, IASC completed the Core Standards Work Program in 1998. In 2000, the Technical Committee of IOSCO recommended securities regulators worldwide to permit foreign issuers to use IASC Standards for cross-border offering and listing purposes, subject to certain supplemental treatments.

4.6 International Accounting Standards and SIC Interpretations

During its existence, IASC issued 41 numbered Standards, known as International Accounting Standards (IAS), as well as a Framework for the Preparation and Presentation of Financial Statements. While some of the Standards issued by the IASC have been withdrawn, many are still in force. In addition, some of the Interpretations issued by the IASC’s interpretive body, the so-called Standing Interpretations Committee (SIC), are still in force.

<table>
<thead>
<tr>
<th>List of IAS Still in Force for 2006 Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 1, Presentation of Financial Statements</td>
</tr>
<tr>
<td>IAS 2, Inventories</td>
</tr>
<tr>
<td>IAS 7, Cash Flow Statements</td>
</tr>
<tr>
<td>IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors</td>
</tr>
<tr>
<td>IAS 10, Events After the Balance Sheet Date</td>
</tr>
<tr>
<td>IAS 11, Construction Contracts</td>
</tr>
<tr>
<td>IAS 12, Income Taxes</td>
</tr>
<tr>
<td>IAS 14, Segment Reporting</td>
</tr>
<tr>
<td>IAS 16, Property, Plant, and Equipment</td>
</tr>
<tr>
<td>IAS 17, Leases</td>
</tr>
<tr>
<td>IAS 18, Revenue</td>
</tr>
<tr>
<td>IAS 19, Employee Benefits</td>
</tr>
<tr>
<td>IAS 20, Accounting for Government Grants and Disclosure of Government Assistance</td>
</tr>
<tr>
<td>IAS 21, The Effects of Changes in Foreign Exchange Rates</td>
</tr>
<tr>
<td>IAS 23, Borrowing Costs</td>
</tr>
<tr>
<td>IAS 24, Related-Party Disclosures</td>
</tr>
<tr>
<td>IAS 26, Accounting and Reporting by Retirement Benefit Plans</td>
</tr>
<tr>
<td>IAS 27, Consolidated and Separate Financial Statements</td>
</tr>
<tr>
<td>IAS 28, Investments in Associates</td>
</tr>
<tr>
<td>IAS 29, Financial Reporting in Hyperinflationary Economies</td>
</tr>
<tr>
<td>IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions</td>
</tr>
<tr>
<td>IAS 31, Interests in Joint Ventures</td>
</tr>
<tr>
<td>IAS 32, Financial Instruments: Disclosure and Presentation</td>
</tr>
<tr>
<td>IAS 33, Earnings per Share</td>
</tr>
<tr>
<td>IAS 34, Interim Financial Reporting</td>
</tr>
<tr>
<td>IAS 36, Impairment of Assets</td>
</tr>
<tr>
<td>IAS 37, Provisions, Contingent Liabilities and Contingent Assets</td>
</tr>
<tr>
<td>IAS 38, Intangible Assets</td>
</tr>
</tbody>
</table>
5. THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

5.0.1 In 2001, fundamental changes were made to strengthen the independence, legitimacy, and quality of the international accounting standard-setting process. In particular, the IASC was replaced by the International Accounting Standards Board (IASB) as the body in charge of setting the international standards.

Key Differences between IASC and IASB

The IASB differs from the IASC, its predecessor body, in several key areas:

- Unlike the IASC, the IASB does not have a special relationship with the international accounting profession. Instead, IASB is governed by a group of Trustees of diverse geographic and functional backgrounds who are independent of the accounting profession.
- Unlike the Board members of the IASC, Board members of the IASB are individuals who are appointed based on technical skill and background experience rather than as representatives of specific national accountancy bodies or other organizations.
- Unlike the IASC Board, which only met about four times a year, the IASB Board usually meets each month. Moreover, the number of technical and commercial staff working for IASB has increased significantly as compared with IASC. (Similar to IASC, the headquarters of the IASB is located in London, the United Kingdom.)

The interpretive body of the IASC (SIC), has been replaced by the International Financial Reporting Interpretations Committee (IFRIC).

5.0.2 The objectives of the IASB, as stated in its Constitution, are to

(a) Develop, in the public interest, a single set of high-quality, understandable, and enforceable global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions;

(b) Promote the use and rigorous application of those standards; and

(c) Work actively with national standard setters to bring about convergence of national accounting standards and International Financial Reporting Standards to high-quality solutions.

5.0.3 At its first meeting in 2001, IASB adopted all outstanding IAS issued by the IASC as its own Standards. Those IAS continue to be in force to the extent they are not amended or withdrawn.
by the IASB. New Standards issued by IASB are known as IFRS. When referring collectively to IFRS, that term includes both IAS and IFRS.

### List of IFRS

- **IFRS 1**, *First-time Adoption of International Financial Reporting Standards*
- **IFRS 2**, *Share-Based Payment*
- **IFRS 3**, *Business Combinations*
- **IFRS 4**, *Insurance Contracts*
- **IFRS 5**, *Noncurrent Assets Held for Sale and Discontinued Operations*
- **IFRS 6**, *Exploration for and Evaluation of Mineral Resources*
- **IFRS 7**, *Financial Instruments: Disclosures*

5.0.4 One of the initial projects undertaken by IASB was to identify opportunities to improve the existing set of Standards by adding guidance and eliminating inconsistencies and choices. The improved Standards, adopted in 2003, form part of IASB’s so-called stable platform of Standards for use in 2005 when a significant number of countries around the world moved from national accounting requirements to IFRS, such as all the countries in the European Union.

### 5.1 Structure and Governance of IASB

#### 5.1.1 Trustees

The governance of IASB rests with the Trustees of the International Accounting Standards Committee Foundation (the “IASC Foundation Trustees” or, simply, the “Trustees”). The Trustees have no involvement in IASB’s standard-setting activities. Instead, the Trustees are responsible for broad strategic issues, budget, and operating procedures, as well as for appointing the members of IASB.

#### 5.1.2 The Board

The Board is responsible for all standard-setting activities, including the development and adoption of IFRS. The Board has 14 members from around the world who are selected by the Trustees based on technical skills and relevant business and market experience. The Board, which usually meets once a month, has 12 full-time members and 2 part-time members. The Board members are from a mix of backgrounds, including auditors, preparers of financial statements, users of financial statements, and academics.

#### 5.1.3 Standards Advisory Council

IASB is advised by the Standards Advisory Council (SAC). It has about 40 members appointed by the Trustees and provides a forum for organizations and individuals with an interest in international financial reporting to provide advice on IASB agenda decisions and priorities. Members currently include chief financial and accounting officers from some of the world’s largest corporations and international organizations, leading financial analysts and academics, regulators, accounting standard setters, and partners from leading accounting firms.

#### 5.1.4 International Financial Reporting Interpretations Committee (IFRIC)

IASB’s interpretive body, IFRIC, is in charge of developing interpretive guidance on accounting issues that are not specifically dealt with in IFRSs or that are likely to receive divergent or unacceptable interpretations in the absence of authoritative guidance. IFRIC members are appointed by the Trustees.

### List of IFRIC Interpretations

- **IFRIC 1**, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- **IFRIC 2**, *Members’ Shares in Cooperative Entities and Similar Instruments*
- **IFRIC 3**, *Emission Rights* (withdrawn)
IFRIC 4, Determining Whether an Arrangement Contains a Lease
IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6, Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment
IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8, Scope of IFRS 2
IFRIC 9, Reassessment of Embedded Derivatives

5.1.5 Standard-Setting Due Process

As part of its due process in developing new or revised Standards, the Board publishes an Exposure Draft of the proposed Standard for public comment in order to obtain the views of all interested parties. It also publishes a “Basis for Conclusions” to its Exposure Drafts and Standards to explain how it reached its conclusions and to give background information. When one or more Board members disagree with a Standard, the Board publishes those dissenting opinions with the Standard. To obtain advice on major projects, the Board often forms advisory committees or other specialist groups and may also hold public hearings and conduct field tests on proposed Standards.