

# **International Financial Reporting Standards** **A World Benchmark for Transparent and** **Internationally Recognized Reporting** **by Legal Entities**

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International Financial Reporting Standards: A World Benchmark for Transparent  
and Internationally Recognized Reporting by Legal Entities

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## **Overview**

- 1. IFRS development as a world standard for providing transparent and internationally comparable reporting.**
- 2. The status, evolution and experiences of IFRS application in the world.**
- 3. Ongoing and planned activities aimed at continuous improvement of standards and other developments.**

The aim of this presentation is to emphasize the role of IFRS as the global benchmark for transparent and internationally recognized reporting, and the role IFAC plays in the process of improvement of the standards and strengthening the accounting profession globally, and developing countries in particular.



## Why do we need International Financial Reporting Standards?

IFRS development as a world standard is providing transparent and internationally comparable reporting.

💡 In the times of globalization, what happens in one country is not without any impact on what happens elsewhere. Our countries' economies form a system of communicating vessels, with all its pros and cons.

💡 We seem to realize that very well, nowadays, when the world finds itself in the aftermath of the most serious economic crisis since 1929. Much has already been written about its causes, but as the representatives of the accounting profession we have to analyse what went wrong on our side, draw conclusion from what has happened, in order to avoid making the same mistakes in the future.

In such conditions it is crucial to focus our attention on strengthening the accountancy profession worldwide.



**As the forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses themselves expand across borders, both the public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong globally accepted auditing standards.**

## **Milestones in the history of globalization**



**“It has been said that arguing against globalization is like arguing against the laws of gravity.”**

**Kofi Annan**



**“Globalization is not something we can hold off or turn off . . . it is the economic equivalent of a force of nature -- like wind or water.”**

**Bill Clinton**



# Alexander the great

Creator of the great Macedonian Empire

His conquests catalyzed the cultural diffusion in the ancient world.



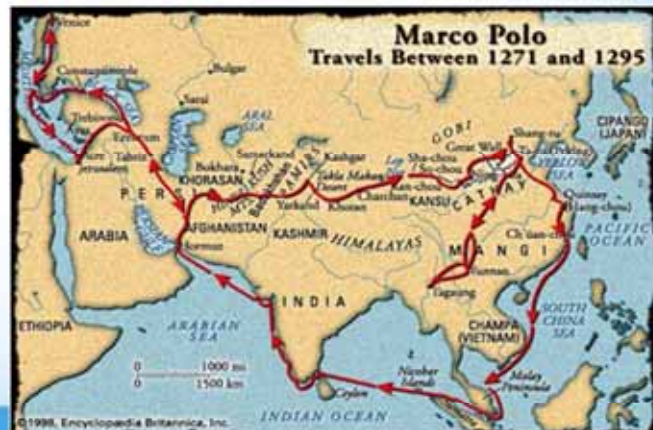
356 BC

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# Marco Polo

Traveller and merchant from Venice

His pioneering journey to Central Asia and China facilitated trade between Europe and Far East



0

1254

## Christopher Columbus



Known as the man who discovered America.

His transatlantic voyages initiated the process of exploration and colonization of the Americas.

 corn     potato     tobacco     cacao

0

1451



**159** members and associates

from **124** countries

representing **2,5** million accountants

0

1977



## IFAC's Mission

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.



Currently IFAC helps establish, strengthen and advocates for Professional Accountancy Organizations Developing Committees (PAODC) that are or are aspiring to become IFAC members or associates.

**IFAC also helps governments and other stakeholders that seek to develop such organizations within their jurisdictions.**

## But the circumstances have changed...



## The benefits of a global financial reporting framework

- **greater comparability of financial information for investors – the public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied;**
- **greater willingness on the part of investors to invest across borders – investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards;**
- **lower cost of capital – globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public;**
- **more efficient allocation of resources;**
- **higher economic growth – adherence to international standards can ultimately lead to greater economic expansion.**

## Result

- A financial reporting system supported by strong governance, high quality standards, and sound regulatory frameworks is **key to economic development**.
- High quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and nonfinancial information and play an integral role in contributing to a country's **economic growth and financial stability**.

- As the world continues to globalize, discussion of convergence of national and international standards has increased significantly.
- Most major capital markets are now actively discussing or pursuing efforts of convergence towards single sets of globally accepted accounting and auditing standards.

## Who supports the convergence?

In recognizing that global capital markets require high quality, globally consistent, and uniform regulatory and standards regimes IFAC is joined by international regulators, including:

- the Basel Committee on Banking Supervision,
- the European Commission,
- the Financial Stability Forum,
- the International Association of Insurance Supervisors,
- the International Organization of Securities Commissions,
- the World Bank.

## Understanding the meaning of international convergence

- What does “adoption of international standards” mean?
- There seems to be no universally accepted definition of “adoption”.
- The term used in Ukraine is „implementation”. Some refer to “adoption”, “harmonization”, “transformation”, „based on”, etc. without clearly defining what those terms meant.
- For example, what does it mean to be “largely harmonized”?

## Translation of the International Standards

The translation of the International Standards is a major challenge in the adoption and implementation of the standards.

Translators often find it difficult to convey the real meaning of the English text in the translated standards.

### The difficulties with translation arise from:

- the use of lengthy English sentences;
- inconsistent use of terminology;
- the use of the same terminology to describe different concepts;
- the use of terminology that is not capable of translation.

For example, international standards use words such as “shall” and “should” and the present tense to indicate different levels of obligations, while many languages are not capable of using the same indicators.

## SUCCESS FACTORS

Factors that contributed to national standard setters' success in adopting and implementing the international standards include:

- the development of and commitment of all stakeholders to a **formal international convergence policy** that clearly states the fundamental principles of international convergence, the convergence process, the roles and responsibilities of all stakeholders, and the timeframe for international convergence;
- the **establishment of good relationships with and cooperation among all stakeholders**, including preparers, auditors, users of financial statements, governments, and regulators;
- the consideration of the effect that international convergence may have on **small- and medium-sized entities and accounting firms**;
- the establishment of a **formal translation process**, which involves both professional translators and professional accountants;
- the alignment of national standard-setting agendas and processes with those of the international standard setters;
- the devotion of **significant resources** to working with and influencing the work of the international standard setters.

See Peter Wong

## 2. The status, evolution and experiences of IFRS application in the world.



IFRSs permitted – 25 countries

IFRSs required for all domestic companies – 91 countries

IFRSs required for some domestic companies – 6 countries



Sir David Tweedie, IFRS in 2011 and beyond

## Current debates

- **Transparency vs. financial stability**
- **Ideology**
  - Fair value vs. historical cost
  - IFRS vs. US GAAP
  - Performance presentation
- **IFRS – international or regional**
- **ADOPT don't ADAPT**
- **Principles vs. rules**

## What is ahead?

- **2012** IFRS in more than 150 countries and broad US convergence programme
- **Vision: A single set of high quality global accounting standards.**

3. Ongoing and planned activities aimed at continuous improvement of standards and other developments



# Strengthening the accountancy profession in **Ukraine**

by developing

strong, sustainable, national

**Professional Accountancy Organisations**

Circumstances have changed, and  
so should actions.

**FINANCIAL CRISIS  
FORCED US TO  
SEARCH FOR  
NEW SOLUTIONS**

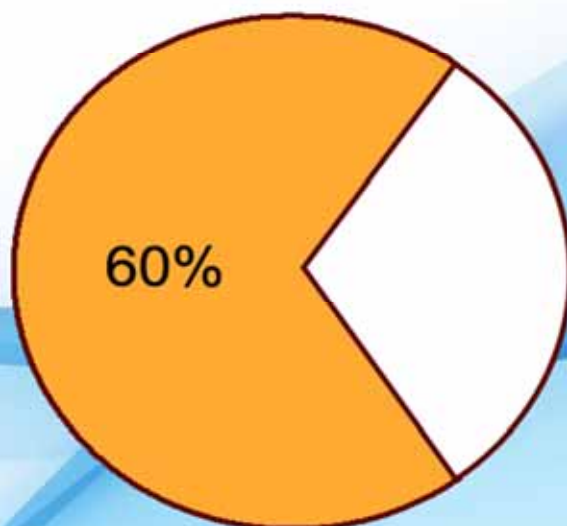




Overcoming the negative effects of the financial crisis for the accounting profession, strengthening the global financial system and getting the world economy back on the route of sustainable growth is not possible without strengthening the profession in developing countries.



According to the DNC's findings, approximately 60% of IFAC members and associates operate in developing countries.



## Main problems that DC face

Lack of capacities and resources to:



-  establish effective financial legislative frameworks,
-  design strong education and certification programs,
-  develop competent and capable accountancy professionals.

## And as a result:




- 💡 poor-quality financial reporting,
- 💡 lack of transparency and confidence in the financial markets,
- 💡 limited foreign direct investment and economic growth.

This is what encouraged IFAC to search for new ways of approaching developing countries' needs.



## The DNC Review

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- 💡 A strategic review was undertaken by the DNC Review Task Force in 2009-2010 to reflect on the DNC structure, activities and effectiveness.
  - 💡 As a result of the review, DNC decided to expand support for the development of professional accountancy organisations throughout the world.

## The DNC review

- The name of the DNC was changed into **PAODC**, to better reflect its focus and communicate its purpose to external stakeholders.
- The PAODC began undertaking its activities in January 2011.

## Purpose of the PAODC



The future purpose of the PAODC is to promote and facilitate the establishment and strengthening of PAOs.






“Learn from the mistakes of others.  
You can’t live long enough to make them  
all yourself”.


Eleanor Roosevelt



## Objectives of the PAODC


-  Further facilitate the mentoring of PAOs in developing countries by regional organizations, accountancy groupings and more developed PAOs.
-  Coordinate and facilitate the sharing of relevant information and good practices among donor agencies, PAOs and regional organizations.
-  Maintain ongoing liaison with the donor community, governments and other stakeholders with emphasis on the contributions of strong PAOs.

## Objectives of the PAODC

-  Further support professional capacity building by placing more emphasis on the development of tools and guidance and provision of outreach activities which target the development of PAOs.
-  Increase the emphasis on communication of the needs of PAOs and the tools and guidance developed by the committee, including translation of these resources to ensure they reach relevant stakeholders.

# Objectives of the PAODC

 Continue to strengthen advocacy and build awareness within the donor community by developing a strategy to improve coordination of activities and messaging.

 Establish partnerships with the donor community to develop a common strategic focus for capacity development.



## PAODC Linkage to Action Plan Process

The PAODC will assist developing PAOs with the definition and implementation of their Action Plans by:

- 💡 Using the information received in response to the Compliance Program to respond to their needs in the most appropriate manner
- 💡 Undertaking staff outreach activities which provide guidance and advice related to the Compliance Program and SMOs

## PAODC Linkage to Action Plan Process

The PAODC will also:

- 💡 Facilitate mentoring activities which also assist developing PAOs in defining and implementing their Action Plans
- 💡 Facilitate relationships between PAOs and donor agencies, raising awareness about PAOs' needs
- 💡 Undertake advocacy activities to highlight the importance of the Compliance Program
- 💡 Develop tools, such as the Toolkit, also providing guidance about Action Plans

## Summing up...

We live in very interesting, though uncertain times. The accountants' response to the challenges of the changing environment is the establishment of the PAODC.

We believe that only putting more emphasis on supporting Professional Accountancy Organizations can lead to strengthening the accountancy profession after the time of global financial turbulence, and only IFAC, as a truly global player, has the abilities and resources that are essential to achieve this goal.

## References

- Peter Wong, Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs, September 2004
- Sir David Tweedie, IFRS in 2011 and beyond, World Congress of Accountants, Kuala Lumpur November 2010