



## **IFRS FOR UKRAINE MOVES FORWARD**

Ukraine has moved swiftly over the past six months to move forward with the legal adoption and implementation of International Financial Reporting Standards (IFRS) in Ukraine. On December 31, 2010, the Ministry of Finance of Ukraine published draft amendments for public commentary that proposed amendments to Ukraine's Law on Accounting. The draft law defines the formerly ambiguous "international standards" as IFRS. The proposed amendments require IFRS reporting by public joint stock companies, banks, insurers, and other financial services providers to be determined by the Cabinet of Ministers of Ukraine. Additionally, IFRS-compliant financial reporting may be submitted by entities that elect to do so based upon a preliminary agreement with the entity's owner. The Cabinet of Ministers sent the final draft law (#8194 On Amending The Accounting Law) to the Verkhovna Rada (VR) on March 3, 2011. The VR approved the draft amendments during its first reading of the new law on April 21, 2011. The VR then approved the draft law during its second reading without changes on May 12, 2011, and forwarded the law to the Presidential Administration on May 23, 2011, for signing. If the amendments are signed and enacted as law, the new requirements would be applied starting from January 1, 2012. In conjunction with the passage of this new law, the Ministry of Finance extended the performance period of its IFRS implementation plan and began working on a memorandum of cooperation with the National Bank of Ukraine to combine efforts to execute the implementation plan.

These efforts towards reforming financial reporting in Ukraine coincide with FINREP's goal of enhancing the organizational capacity of financial sector institutions to implement reforms and raise performance to international best practices. Therefore, FINREP partnered with the Ukrainian Federation of Professional Accountants and Auditors (UFPAA) to organize an international conference entitled "Prospects for Development of Accounting, Auditing and Analysis in the Context of Euro-Integration," which was held in Odessa from May 18-20, 2011.

Several senior Ukrainian authorities on accounting, auditing, and financial reporting gave presentations at the conference. The conference presented Ukraine's professional accounting community with an opportunity to learn first-hand the efforts of Ukraine's regulators to implement IFRS in Ukraine, and provided the community an occasion to voice concerns and ask questions about Ukraine's adoption of IFRS. About 150 accounting professionals attended the conference.

The conference was opened with welcome addresses from Alexander Papaika, President of UFPAA, Mikhail Zveryakov, Professor and Rector of the Odessa State Economic University, and Dr. Robert Bond, Chief of Party for FINREP. The first working session focused on international experiences of implementing IFRS. Ms. Aldona Kamela-Sowińska, a former Minister of Treasury in Poland, spoke on the role of the International Federation of Accountants (IFAC) in establishing IFRS as the world's international language for accounting. Mr. Henri Fortin, Head of the World Bank's Centre for Financial Reporting Reform (CFRR) in Austria, followed with a presentation on how the adoption and implementation of IFRS transpired in the European Union (EU) over the last decade. Mr. Zurab Lalazashvili, Chairman of the Georgian Federation of Professional Accountants and Auditors, then delivered a synopsis of IFRS implementation in Georgia as a case-study in transitional issues in former Soviet republics.

Mr. Oleg Kantsurov, Head of the Accounting Methodology Department at the Ministry of Finance of Ukraine, and Mr. Bohdan Lukasevych, Chief Accountant at the National Bank of Ukraine, closed the first working session with presentations on what steps the Ministry of Finance and the National Bank of Ukraine have taken to implement IFRS and how the two regulators plan to cooperate in the future. Mr. Kantsurov stated that a key mission of the Ministry of Finance is the successful realization of the Presidential Administration's Program of Economic reforms (2010-2014) to establish a stable economic environment in Ukraine. Accounting reform is one key component for modernization of the national economy and a strategic aim of the Ministry of Finance is to improve accounting and the financial reporting system to be consistent with international standards and EU legislation. Mr. Lukasevych detailed how banks started moving towards IFRS-based reporting in 1998 and that, as of today, the accounting methodology in Ukraine's banking sector is almost fully compliant with IFRS, with some discrepancies in the procedure of forming reserves. Mr. Lukasevych also noted the lack of a well-developed market infrastructure for defining the fair value of financial instruments, the lack of a proper legislative base that is consistently updated, and differences between accounting and tax legislation.

The second working session focused on how accounting, auditing, and public disclosure of information affects the overall investment climate in a country. Mr. Nikolai Burmaka, Commissioner of Ukraine's Securities and Stock Market State Commission (SSMSC), opened the session with a presentation that outlined the need for greater

financial disclosure by public financial institutions. Mr. Burmaka has been a strong proponent of increased public access to financial information. In November 2010, the SSMSC mandated disclosure of financial reporting for public companies under IFRS beginning in 2011, and implemented use of the Electronic System for Comprehensive Information Disclosure (ESCRIN) in January 2011. ESCRIN allows companies to submit financial data electronically in compliance with both Ukrainian Accounting Standards and IFRS, which can then be viewed by the public. Ms. Valentina Levchenko, Deputy Head of the State Commission for Regulation of Financial Services Markets in Ukraine (FSR), discussed the current status of IFRS implementation for non-banking financial institutions, such as insurers, non-state pension funds, and collective investment (mutual) funds. In 2009, the FSR approved an action plan for implementing IFRS for non-bank financial institutions. Also, a new procedure for reporting by non-state pension funds was introduced that is based on the IFRS 26 guidelines for disclosures by private pension funds. Ms. Levchenko also noted the lack of methodological materials for converting to IFRS and the lack of specialists familiar with IFRS.

Mr. Andrei Busuioc, Financial Management Specialist also from the World Bank's CFRR in Austria, followed with a presentation on how IFRS financial statements and disclosures promote investor confidence. Dr. Michal Skopowski, an expert from the Business Reporting Advisory Group, then introduced the IFRS-XBRL taxonomy as the future of worldwide financial reporting. Mr. Paul Van Geyt, Audit and Accountancy Expert for the Institute of Enterprise Auditors in Belgium, spoke about how the role of auditors evolved in Belgium. Ms. Jurgita Kirvaytiyene, President of the Auditors Chamber of Lithuania, delivered a parallel report on the auditors role in Lithuania. Mr. Ivan Nesterenko, Chairman of the Auditors Chamber of Ukraine, then addressed the conference on Ukraine's experience with regard to auditors and the audit function in Ukraine. The session ended with an address by Mr. Nikolai Gaidai, Head of the Accounting and Audit Methodology Department at Academy of Finances, under the Ministry of Finance, on prospects for improving the regulation of audit activity in Ukraine.

The third working session was opened by Ms. Natalia Vovchuk, Head of the Ukrainian Representative Office of the Association of Chartered Certified Accountants, who gave a presentation on future avenues accounting professionals may pursue in Ukraine. Ms. Elena Velichko, Department Deputy Head of the SSMSC, spoke on how IFRS implementation will affect Ukraine's stock markets. Mr. Andreas Philippou, Director of Baker Tilly Klitou in Cyprus, followed with a review of the IFRS implementation experience in Cyprus. Ms. Nadezhda Konovalenko of Ernst & Young then discussed the practical implementation of IFRS by Ukrainian companies. Mr. Mikhail Melnik of Deloitte & Touche, ended the third working session with a review of challenges faced by Ukrainian companies to implement IFRS and improve the quality of financial reporting.

The final session began with an address by Dr. Lyubov Napadovskaya, Head of the Accounting Chamber at the Kyiv National Trade and Economics University, on the subject of developing accounting in Ukraine during times of global change. Mr. Vitaliy Gavrysh of Baker Tilly Ukraine and Ms. Olga Kulaga of Ukrgazbank both spoke on the issues of professionalism and ethical standards of professional accountants. Ms. Valentina Maximova, Head of Accounting and Audit Department at the Odessa State Economic University, presented a synopsis of the changes necessary in the standards and curricula of institutions of higher education. The conference's final speaker was Ms. Svitlana Zubilevych, Professor and Head of UFPAA's Education Committee, who addressed the availability and need for continuing professional education of accountants in Ukraine.

The conference participants generally agreed on the proposed reform of IFRS implementation. However, three major areas of concern were raised: 1) creating a clear legal and regulatory framework for IFRS implementation with a corresponding official translation of the updated version of IFRS; 2) locating the funding necessary for training on IFRS conversion; and 3) how to properly supervise/regulate auditors to improve the credibility of Ukraine's financial reporting. The Ministry of Finance announced during the conference that it had finalized its memorandum of cooperation with the National Bank of Ukraine on implementation of IFRS. This joint cooperation hopes to address these three concerns and efforts will begin shortly to implement IFRS in Ukraine. The memorandum addresses several action items to move the implementation of IFRS forward in Ukraine. These measures include: 1) making an official translation of the current IFRS texts, glossary, and guidance; 2) developing a regulatory framework for the implementation of IFRS; 3) conducting public outreach and providing information on IFRS and the first-time application of IFRS; 4) creating a free, online resource for end-users to obtain data on IFRS; 5) educating accountants that are required to report under IFRS; and 6) creating regulation to ensure effective oversight of IFRS reporting.

FINREP intends to support several measures included in the memorandum that coincide with FINREP's own action plan for technical assistance in the implementation of IFRS in Ukraine. These measures will include assistance in creating an updated IFRS translation and supporting materials, the creation of open-source guidance on the application of IFRS, and support of IFRS training seminars for both governmental and professional organizations.