International Financial Reporting Standards

Guillermo Braunbeck, *Project Manager, IFRS Education Initiative*, IASB

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Outline

- Why global standards?
- The progress
- Structure and governance
- Understanding principle-based standards
- The *IFRS for SMEs*
- Common misunderstandings

Why global standards?

Creating a level playing field

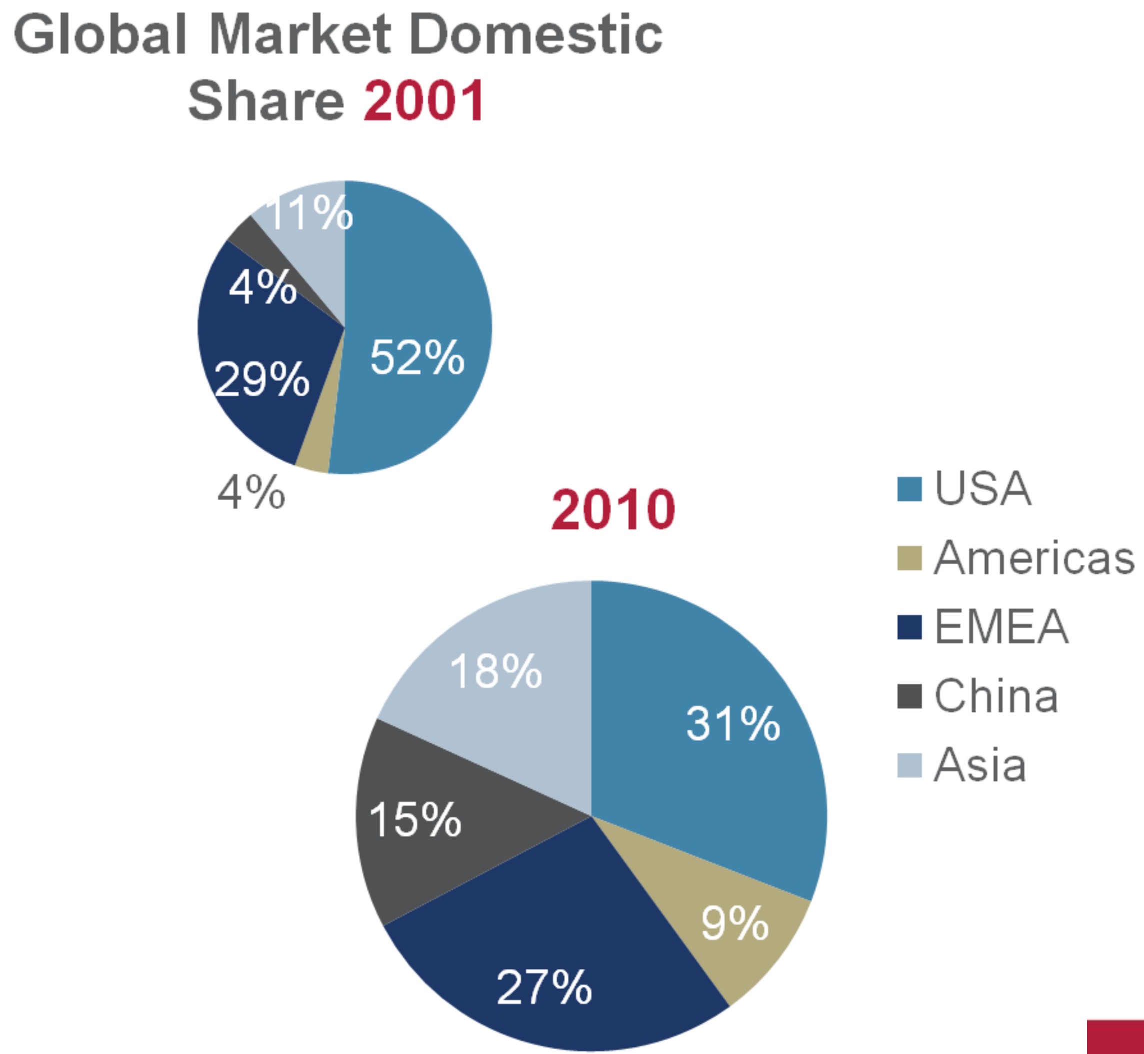
Global accounting standards will provide the bedrock on which to build a stronger, more resilient financial system

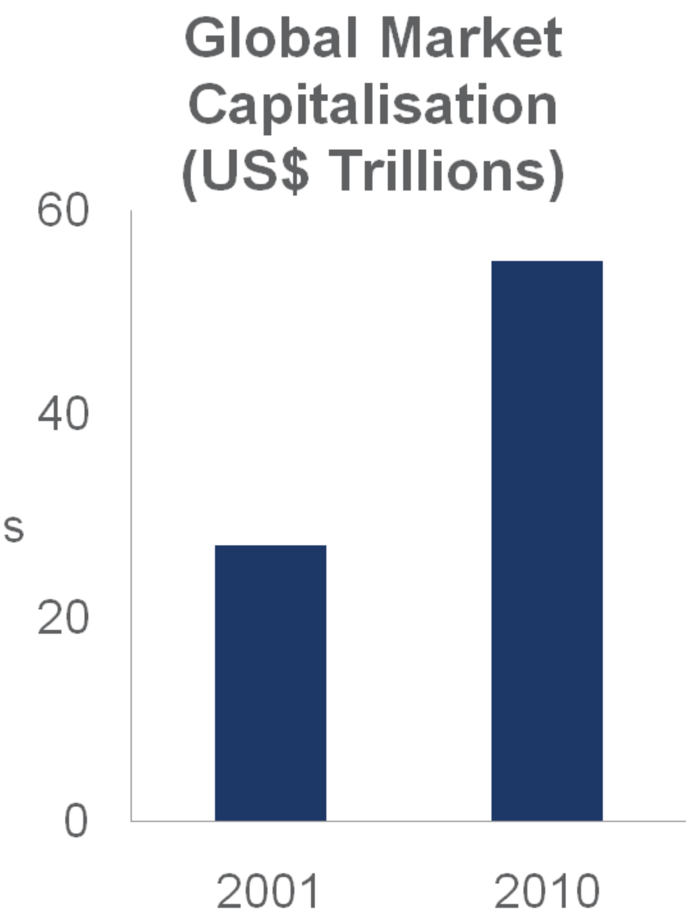
Benefits of global standards

- Efficient allocation of capital globally
  - – attracting investment through transparency
  - – reducing the cost of capital
  - – increasing world-wide investment
- Reducing costs and increasing efficiency
  - – facilitates standardising information systems
  - – eliminates wasteful reconciliations
  - – audit efficiencies
  - – education and training

The progress

Global markets: growing & diversifying



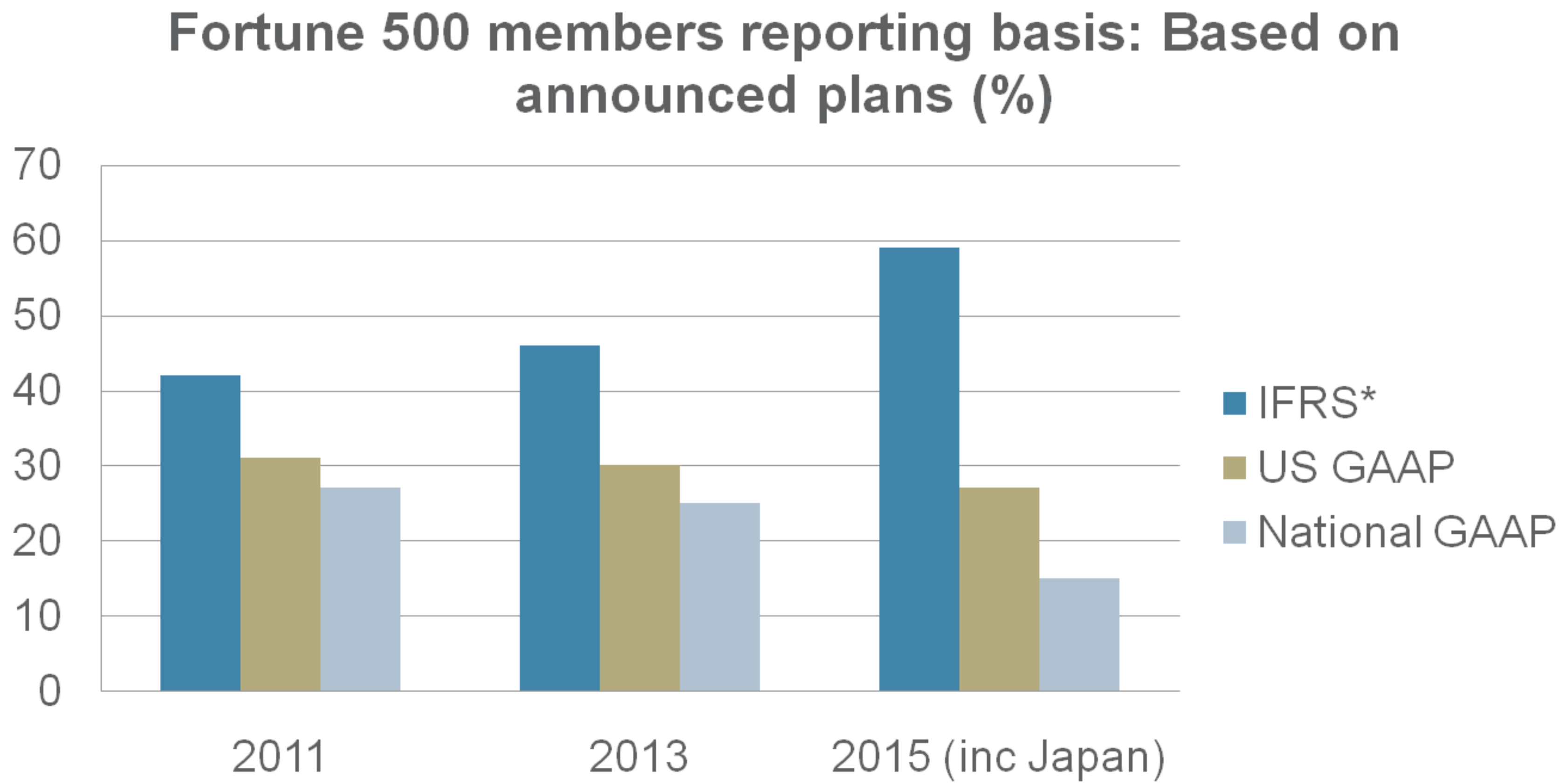


Progress towards global accounting standards

- 100+ countries now require or permit IFRS
- From 2012, **$^3/_4$ of G20 require IFRS**

G20 Members requiring use of IFRS	Adoption year
Argentina	2012
Australia	2005
Brazil	2010
Canada	2011
European Union	2005
France	2005
Germany	2005
Italy	2005
Mexico	2012
Republic of Korea	2011
Russia	2012
South Africa	2005
Turkey	2005
United Kingdom	2005

Fortune Global 500 reporting trends



*or word for word equivalent

International Financial Reporting Standards

Structure and governance

IFRS™

The vision

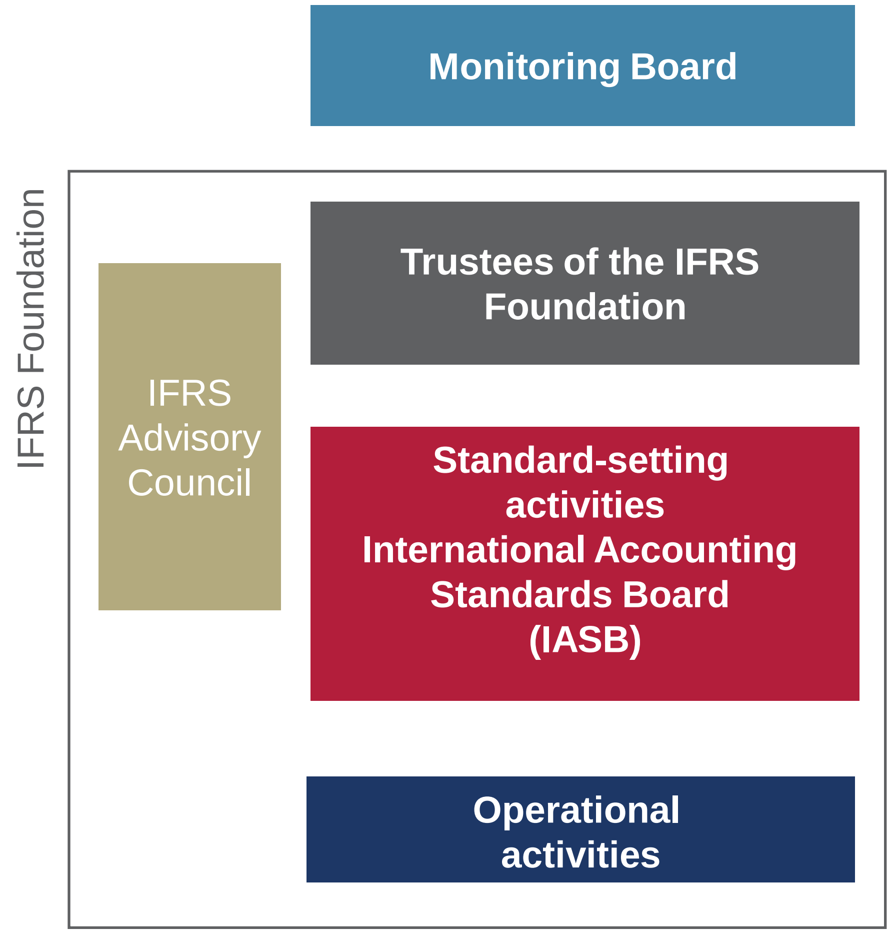
…one single set of high quality global accounting standards..

..used in the global capital markets.

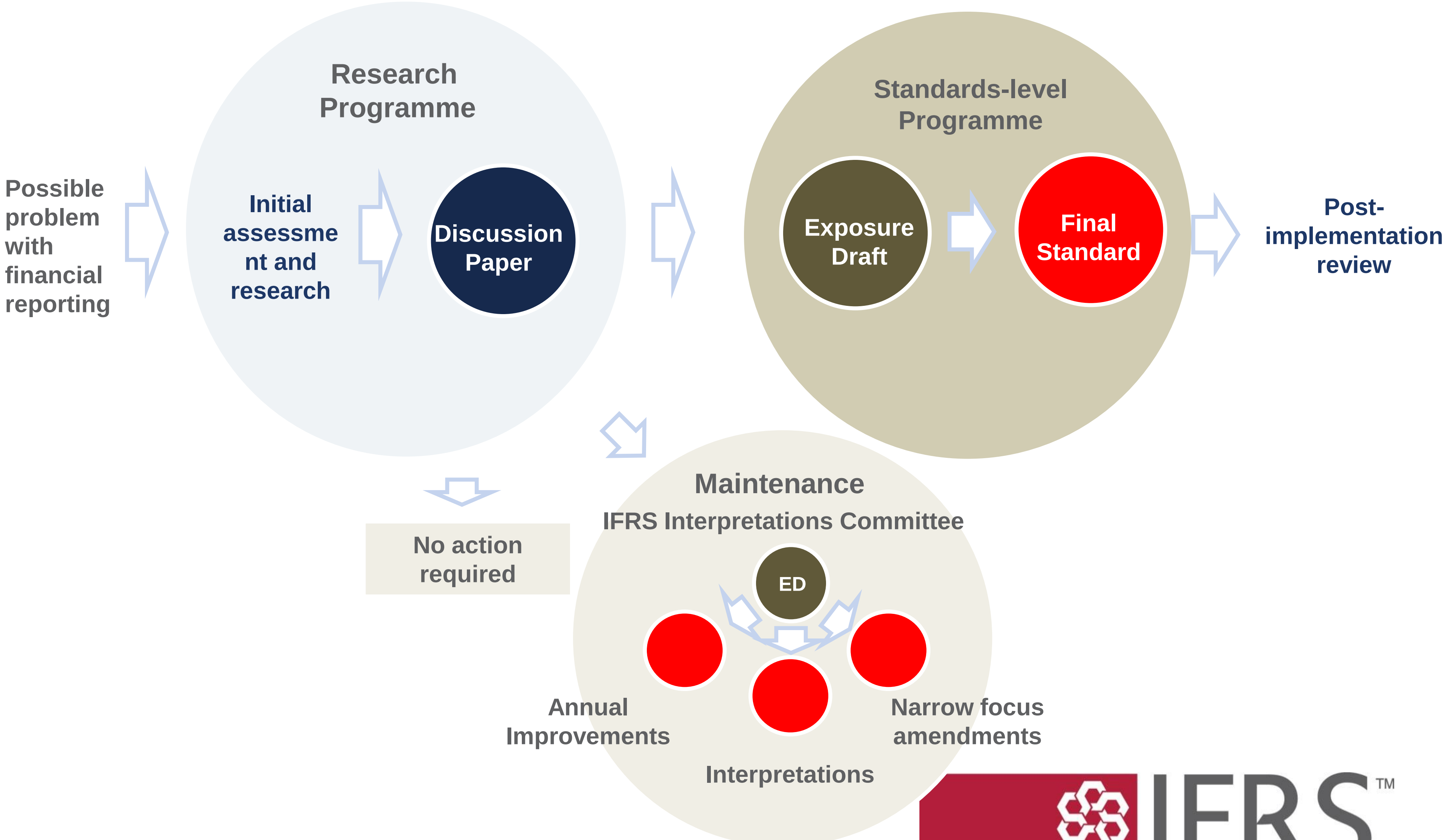
The corner stones of IFRS development

How do we operate?

- An independent standard-setting board
- overseen by diverse body of trustees
- publically accountable to a Monitoring Board of capital market authorities
- Working in the public interest



The standard setting process



Use of IFRSs – the ideal

Ideally, adopt IFRSs as the reporting framework:

- IFRSs as issued by the IASB in full
- Audit report and basis of presentation note refer to conformity with IFRSs
- Without local ‘endorsement’

Use of IFRSs means all standards and all interpretations

- Sometimes the ideal is hard to achieve

International Financial Reporting Standards

Understanding principle-based standards

What does principle-based mean?

- There is overwhelming support for principle-based accounting standards
- But what does principle-based mean?

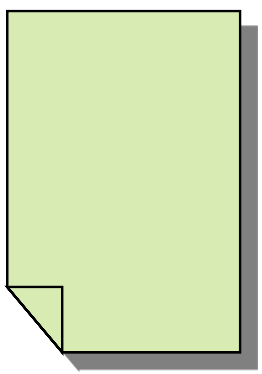
In this presentation

- an IFRS requirement is principle-based only when it is consistent with the concepts in the IASB's *Conceptual Framework*

IFRS™

Framework-based IFRS understanding…

- relate each IFRS requirements to the concepts in *Conceptual Framework*
- understand why some IFRS requirements do not maximise those concepts (eg application of the cost constraint)



Concepts

Principles

Rules

Framework-based IFRS understanding provides…

- a cohesive understanding of IFRSs
  - *Framework* facilitates consistent and logical formulation of IFRSs
- a basis for judgement in applying IFRSs
  - *Framework* established the concepts that underlie the estimates, judgements and models on which IFRS financial statements are based
- a basis for continuously updating IFRS knowledge and IFRS competencies

Role of the *Conceptual Framework*

- **IASB** uses *Framework* to set standards
  - enhances consistency across standards
  - enhances consistency across time as Board members change
  - provides benchmark for judgments
- **IFRS Interpretations Committee** uses *Framework* to interpret IFRSs when there is no IFRS requirement
- **Preparers** use *Framework* to develop accounting policies in the absence of specific standard
  - IAS 8 hierarchy

IFRS™

The IASB's *Conceptual Framework*

- *Framework* sets out agreed concepts that underlie IFRS financial reporting
  - the objective of general purpose financial reporting
  - qualitative characteristics
  - elements of financial statements
  - recognition
  - measurement
  - presentation and disclosure

Other concepts all flow from the objective

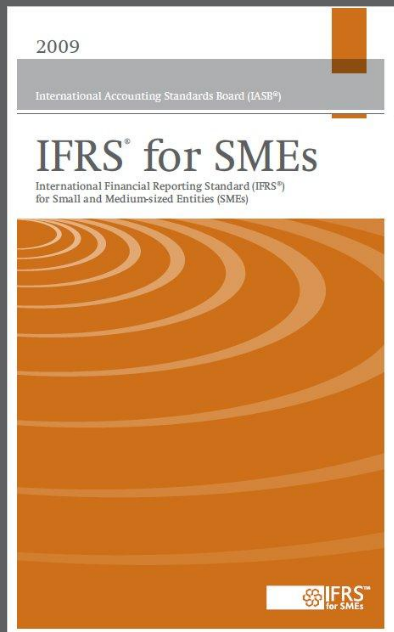
Objective of financial reporting

Provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity

Objective of financial reporting

- Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) **future net cash inflows** to the entity.
  - Decisions by investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, eg dividends, principal and interest payments or market price increases.
  - Decisions by lenders about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect.

International Financial Reporting Standards



The *IFRS for SMEs*

The *IFRS for SMEs*

Good Financial Reporting Made Simple.

- 230 pages
- Simplified IFRS, but built on an IFRS foundation
- Designed specifically for SMEs
- Internationally recognised
- Tailored for SMEs

– user needs for cash flow information

– costs and SME capabilities

Is it stand-alone or linked to full IFRS?

Completely stand-alone

- The only ‘fallback’ option to full IFRS is the option to use IAS 39 instead of the financial instruments sections of *IFRS for SMEs*

Why would an SME want to adopt it?

- Improved access to capital
- Improved comparability
- Improved quality of reporting as compared to existing national GAAP
- Less of a burden where full IFRSs or full national GAAP are now required
- Multinational operations
  - standardised computer systems
  - simplified consolidation procedures
  - standardised training

Small and medium entities

- not publicly accountable
  - traded debt/equity instruments (public market), or
  - hold assets in a fiduciary capacity (broad group of outsiders) as one of its primary businesses
- publish general purpose financial statements for external users

Q&A: Entities that typically have public accountability

Banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks ‘typically’ are SMEs.

Does that mean that all entities of those types should automatically be assumed to have public accountability?

No. Judgement is required to assess whether entities of those types have public accountability. Examples:

- Captive insurance subsidiaries
- Investment funds with only a few participants

Common misunderstandings

Common misunderstandings

The Framework does not…	Rather, the Framework includes…
include a matching concept	accrual basis of accounting—recognise elements when satisfy definition and recognition criteria
include conservatism concept	neutrality concept
include an element other comprehensive income (or a concept for OCI)	only the following elements—asset, liability, equity, income and expense
mention management intent or the business model	

Common misunderstandings continued

Misunderstanding	Clarification
Principles are necessarily less rigorous than rules	Rules are the tools of financial engineers
There are few judgements and estimates in cost-based measurements	Inventory, eg allocate joint costs and production overheads PPE, eg costs to dismantle/restore site, useful life, residual value, depreciation method Provisions, eg uncertain timing and amount of expected future cash flows

IFRS™

Thank you


individual comments
expressions of individual vie
questions
comment
expressions of
individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
dividual comments
expressions of
expressions and viewpoints
expressions of individual views