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REVIEW OF PRACTICAL IMPLEMENTATION ISSUES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Case study in Jamaica

Executive Summary

In concluding its twenty-second session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) agreed to conduct further reviews of the practical implementation challenges of International Financial Reporting Standards (IFRS) as well as ways to meet these challenges. It was also agreed that the further review could be conducted by preparing country case studies with a view to developing guidance on good practices in IFRS implementation. Accordingly, five country case studies covering Brazil, Germany, India, Jamaica and Kenya were prepared.

This report presents findings of the case study conducted in Jamaica. Beginning on 1 July 2002, Jamaica adopted IFRS. This case study presents the financial reporting infrastructure, including the regulatory framework, enforcement, capacity-building issues and lessons learned.

The main objectives of this case study are to draw lessons learned from the experience of Jamaica in implementing IFRS and to discuss the findings with member States, with a view to facilitating sharing of experience among countries that are either implementing IFRS or that intend to do so in the coming years.

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I. Introduction*

1. For many years, Jamaica's accounting standards comprised a mix of International Accounting Standards (IAS). These include IAS, IAS adapted to local peculiarities and locally developed standards to meet the needs of Jamaican companies. With the trend towards global harmonisation of accounting standards, the International Accounting Standards Committee (IASC) issued a new directive that prohibited countries, such as Jamaica, from claiming to be in substantial compliance with IAS. This prompted Jamaica to reconsider its standard-setting practices.

2. Following the significant improvements IASC made to IAS to revise a number of them, to strengthen the standard-setting process, to reduce or eliminate alternative treatments and to meet the mandate of the International Organization of Securities Commission (IOSCO), Jamaica joined its Caribbean partners and an increasing number of countries to review its standard-setting practices and to ensure harmonization of its standards with IAS in all respects, except where comparable standards were not available.

3. Jamaica adopted International Reporting Standards and International Standards on Auditing with effect from 1 July 2002. All companies, listed and private are therefore required to apply IFRS in the preparation of their financial statements and to have these statements audited in accordance with ISA. Prior to 1 July 2002, Jamaican accounting standards and generally accepted auditing standards were used.

4. The change has yielded significant improvements in the quality of financial reporting and the regulatory framework in Jamaica. The financial statements have become significantly more complex, but the strong majority position is that Jamaican companies' financial reports are more comparable and consistent with best practice.

5. The Institute of Chartered Accountants of Jamaica has been a forerunner in promoting regulatory effectiveness and compliance with laws and regulations. The Institute provided important input and guidance in the preparation of the Companies Act (2004).

6. It sought and obtained the support of regulators, business community and Government in its efforts to raise the standard of accountability, quality of financial information and corporate transparency. Financial reports are now of international standards and the economic environment is more investor friendly. The Institute has responsibility for standard-setting and monitoring compliance with the standards.

Rationale for adoptions of IFRS

7. The adoption of IFRS signified Jamaica's integration into mainstream accounting practice and aimed to ensure that the country's reporting is on par with global standards. As noted by Daley,[1] the quest for organizational change, based on

* This document was prepared and edited by the UNCTAD secretariat with significant inputs from Dennis Brown, Institute of Chartered Accountants, Jamaica.

[1] Jennifer A. Daley (2003). *The Adoption of International Accounting Standards (IAS) in Jamaica: Implication for Financial Stability*.

improved operational performance, is likely to be a key issue in financial markets following periods of distress and crisis. Standards must be relevant at all times to the environment. Where gaps exist, the value and impact of the standards are not maximised.[2]

II. Regulatory framework

8. Jamaica's regulatory oversight has undergone significant changes, particularly in respect of the financial sector. The system has been reformed since the financial crisis of 1996-1997 and is governed by principles and guidelines. This is attributable to the strengthening of the institutional framework. The regulatory framework is also generally in line with international best practices and the oversight is effectively managed. The regulatory authorities actively monitor the system and implement further reforms as required. Regulatory capitalization limits have been established for most financial institutions to provide them with reasonable safeguards against abnormalities.

9. The financial system is, however, interrelated to what is described as conglomerate structures that consequently deepens the oversight requirements of the regulators. The relationship poses regulatory risk because of the likelihood of connected lending, conflicts of interest, multiple gearing and contagion in the event of an entity failure. In recent years, there has been a rapid emergence of securities dealers in response to the regulatory improvements and other market developments. The vulnerability of the dealers to interest rate shocks was, however, highly evident in 2003/2004 when the Bank of Jamaica significantly increased nominal interest rate – a move that resulted in those institutions being visibly exposed to near insolvency. The regulators responded by exercising decisive actions to require increased capital, operational accountability and monitoring of these sector entities.

10. To sustain their relevance and effectiveness, the regulators have embarked on a programme to strengthen their capacity by focusing on areas of weakness, adopting best practices and building staffing resources. The strengthening of inter-agency cooperation is also an improvement in the regulatory framework although more is required in this area. Another area the agencies with oversight responsibilities have focused on is regulatory convergence to reduce unevenness and minimize opportunities for regulatory arbitrage. The objective is to ensure a regulatory framework that accords with global standards and capable of promoting and sustaining a competitive economic environment.

11. The transition to a high quality financial reporting system must be accompanied by the underpinnings of efficient regulations and supervision and the strengthening of institutional capacity of oversight authorities.

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[2] International Financial Reporting Standards (IFRS) are developed by the International Accounting Standard Board (IASB). Standards developed by the International Accounting Standards Committee (IASC) are referred to International Accounting Standards (IAS). The full set of standards IFRS and IAS, including the interpretations are generally referred to as IFRS.

12. A substantial number of bodies with different regulatory power and functions make up the regulatory framework in Jamaica. These include the:

a) Bank of Jamaica (BOJ);
b) Financial Services Commission (FSC);
c) Jamaica Deposit Insurance Corporation (JDIC);
d) Financial Regulatory Council (FRC);
e) Public Accountancy Board (PAB);
f) Institute of Chartered Accountants of Jamaica (Institute/ICAJ);
g) Companies Office of Jamaica (formerly, Registrar of Companies);
h) Fair Trading Commission (FTC);
i) Office of Utilities Regulation (OUR);
j) Bureau of Standards of Jamaica (BSJ);
k) National Environmental Protection Authority (NEPA);
l) Jamaica Intellectual Protection Authority;
m) Jamaica Stock Exchange (JSE).

13. The Bank of Jamaica, Financial Services Commission, Jamaica Deposit Insurance Corporation, Financial Regulatory Council and Jamaica Stock Exchange combine regulatory functions for the financial services in Jamaica. The Public Accountancy Board under the Ministry of Finance and the Institute of Chartered Accountants of Jamaica combine responsibilities for the accountancy profession. These responsibilities include entry, training, continuing education, monitoring of, and compliance with, professional standards and complaints and disciplinary issues.

Companies Act (2004)

14. All businesses and professionals, local and foreign, operating in Jamaica must adhere to the laws and regulations. The Companies Act (2004) is the primary source of legal requirements regarding the operation of a company, including corporate disclosures. The Companies Act (2004) is an act of Parliament that became effective 1 February 2005. It succeeded its predecessor, the Companies Act (1965), which was broadly based on the UK Companies Act of 1948. The Act prescribes the basis of incorporation, regulation and winding up of companies and other associations registered there-under and makes provisions for other matters relating thereto. There are approximately 40 000 active companies registered under the Companies Act. Forty-two of these companies are publicly listed on the Jamaica Stock Exchange.

15. The Companies Act requires considerable disclosure and compliance requirements as well as provides for increased penalties for compliance failure. The Act addresses disclosure and other regulatory requirements in relation to:

- incorporation and registration;
- disclosures to be made in a prospectus;
- capitalization minimums;
- management and administration;
- duties and responsibilities of directors and other officers;

- matters relating to winding-up;
- registration and inspections;
- accounts and audit;
- annual reports; and
- meetings and statutory filings.

16. The Companies Act requires specifically all registered companies to present financial statements in accordance with generally accepted accounting principles promulgated by the Institute of Chartered Accountants of Jamaica. The Institute promulgates IFRS as the national accounting standards since 2002. The Act defines the content and form of the financial statements and requires companies to maintain proper accounting records and documents to show a true and fair view of the company's affairs and explain its transactions. In the case of group companies, the Act provides that consolidated financial statements must be presented, except where the company is a wholly owned subsidiary of another company incorporated in Jamaica. The contents of a set of financial statements as defined as:

    a) a balance sheet;
    b) statement of changes in equity;
    c) a profit and loss account;
    d) statement of changes in financial position;
    e) notes to the financial statements.

17. The legal requirement for companies to prepare IFRS compliant financial statements facilitates an effective financial reporting system, as all companies are required to be in compliance. The Institute has the regulatory mandate to set accounting and auditing standards. It has, however, no jurisdiction to ensure compliance by nom-members. The following organizations are key agents in support of the regulatory framework Entities regulated by them are therefore required to comply.

Bank of Jamaica

18. The Bank of Jamaica is established by the Bank of Jamaica Law (1960) and began operations in 1961 to formulate and implement monetary and regulatory policies to safeguard the value of the domestic currency and to ensure the soundness of the financial system. Under the Bank of Jamaica Act, the Bank of Jamaica legally has supervisory oversight over institutions governed by the following pieces of legislation:

    f) Commercial banks governed by the Banking Act;
    g) Near-bank deposit-taking intermediaries, such as merchant banks, trust companies and financial houses licensed under the Financial Institutions Act;
    h) Building societies and institutions operating under the Industrial and Provident Societies Act that either take deposits and/or make loans.

19. The key regulatory provisions are contained in the Banking Act, the Financial Institutions Act, the Building Societies Act and the Bank of Jamaica (Building

Societies) Regulations 1995 that govern the licensing and ”fit and proper” assessment in relation to shareholders, directors and management.

The regulatory provisions include:

- regulations of shareholding in licences;
- minimum capital requirement;
- compulsory creation of reserves and profits;
- adequacy of capital;
- credit exposure limit;
- investment and fixed assets limits;
- cash reserves and liquidity assets;
- loan classification and provisioning guidelines;
- prudential returns and publication of accounts;
- appointment of auditors;
- examination and sanctions.

Financial Services Commission

20. The FSC derives its legal jurisdiction from the Securities Act that came into effect in 1993 to make provisions for the securities industry. This FSC was established in 2001 with the mandate to regulate and supervise all financial services that do not involve the taking of deposits in accordance with the Financial Securities Act 2001, which created the FSC. This regulatory body is commissioned to protect users of financial services in the areas of insurance, securities and pension by fostering the integrity, stability and health of the financial sector.

21. The FSC administers the operations and activities of securities dealers, investment advisors, mutual funds, unit trusts, insurance companies, insurance brokers and agencies. Its mandate includes oversight of the registration, solvency and conduct of approximately 180 firms and 1 400 individuals. In doing so:
    - it ensures compliance with the provisions of the Securities Act within the securities industry;
    - it issues or refuses licences or registration upon application and suspends or cancels such licences or registration if so granted;
    - it ensures compliance with the Insurance Act, Financial Services Act, Securities Act and regulates private persons.
    - Specific regulations exist that govern the criteria for licensing and registration of securities dealers, investment advisors and their representatives. It is illegal to conduct business in Jamaica without the requisite licence under the Act.

22. The FSC implements its activities by the administration of a number of Acts, including the Insurance Act and regulations, Financial Services Act, Pensions Act, Securities Act and Unit Trusts Act. This addresses the solvency standards and actuarial guidelines, appointed actuary, market, conduct standards, fitness and propriety, corporate governance and sanctions and penalties for non-compliance.

Securities Act and regulations – Under this legislation, the FSC covers areas of corporate governance, responsible official, fitness and propriety, mutual funds, issuer registration and capital requirements.

Unit Trusts Act – This Act may be substituted for mutual fund legislation to be enacted in the near future. It provides for fitness and proprietary and corporate governance requirements.

23. It is expected that as part of the strengthening of the regulatory infrastructures there will be clear distinction between the regulation and supervision of deposit-takers and the regulation and supervision of other financial services. This requirement is necessary to diminish areas of regulatory unevenness that currently provides opportunity for regulatory arbitrage.

Financial Regulatory Council

24. The Financial Regulatory Council was established and commenced meeting in 2000. It is a policy-setting body set up to facilitate convergence between the regulators to address evident unevenness of supervision, particularly between banking and other supervisors. Its aim is to ensure greater cohesiveness and efficiency of the financial system, as well as to eliminate regulatory gaps and arbitrage opportunities that can undermine financial stability. The FRC is chaired by the Governor of the Bank of Jamaica. Other members include heads of the FSC and JDIC and the Financial Secretary of the Ministry of Finance.

25. The FRC exercises its regulatory influence by the sharing of information, especially on dually-supervised entities and groups, including conglomerates and critically identifying supervisory gaps and coordinating responses to problems discovered in the financial system. It also has a mandate to promote harmonization of prudential norms and the underlying principle of safety and soundness regardless of the complexity, range and diversity of financial groups and products.

Jamaica Deposit Insurance Corporation

26. The source of the JDIC's authority is the Deposit Insurance Act of 1998 (DIA). Its legislated mandate is to provide protection to small savers and exercises a shared role in safeguarding the country's financial system. Its key functions are to establish and manage a scheme for insurance of deposits against loss. The Deposit Insurance Act prescribes an insurance cover limit for each depositor and provides for the establishment of a Deposit Insurance Fund from which depositors will be paid where a financial institution fails to do so because of regulatory intervention by the BOJ or the Minister of Finance.

27. The JDIC does not have regulatory or supervisory authority. It must therefore work closely with the Bank of Jamaica to discharge its responsibilities effectively. The JDIC is entitled to request and receive on-site reports and other relevant information from the BOJ. Arrangements for information sharing between the BOJ and JDIC are specified in the Deposit Insurance Act, although no such arrangements exist between the JDIC and international agencies. The company's policy is to consult with the

insured financial institutions before introducing mandates of a substantial technical nature. The Board of Directors and employees of this institution are bound by the provisions of the Public Bodies Management and Accountability Act (PBMA).

28. The PBMA was established in 2001, modified 2003 to address the operations of government-owned companies and statutory bodies. The Act seeks to increase the accountability of all public bodies and provides for, *inter alia*:
    a) improvements in corporate governance and accountability in reporting;
    b) establishing a measure of duty of care, disclosure and general conduct of director and others;
    c) providing sanctions for non-compliance with the provisions relating to corporate governance and accountability;
    d) detailing the format and contents of reports to be generated by public entities.

29. The Ministry of Finance in 2005 set out in its strategic programme to achieve as an outcome the effective regulation of financial institutions. It noted that the continued stability in the financial sector is critical to the growth prospect of the country and in this regard, it reaffirms its intention through the BOJ, the FSC and the JDIC to continue to employ strategies to maintain this stability. Specific focus is on:
    a) expediting the development of an adequate regulatory framework for private pensions;
    b) reducing money laundering activities through improved legislation and closer partnership with international bodies;
    c) reinforcing the role of the regulatory agencies in the financial sector;
    d) continuing institutional strengthening of the regulatory bodies.

    It recognizes also the need and is working to strengthen the financial management process of public entities by ensuring timely financial reporting.

Public Accountancy Board

30. The Public Accountancy Act 1968 established a regulatory framework for the accounting profession. The Act created the Public Accountancy Board, a statutory body to issue licences to registered public accountants and promote acceptance standards of professional conduct by registered public accountants. Decisions by this regulatory agency are subject to approval by the Minister of Finance who has authority to issue regulations relating to the profession. The Minister's authority includes the making of complaints against registered public accountants and regulations governing the disciplinary investigations undertaken by the Board and the procedure for approving applications for registration as a registered public accountant.

31. The PAB exercises its mandate by being the legal authority that issues licences to registered public accountants who must also hold a practicing certificate from the PAB. Only registered public accountants have the legal authority to sign audit reports on financial statements. Practicing certificates may be issued to:
    a) members of the Institute of Chartered Accountants of Jamaica who hold practicing certificates from the Institute;
    b) Jamaican citizens who are entitled to practice in another country by virtue of another professional qualification appraised by the Minister of Finance; and

c) a few persons who are qualified by experience and who practiced as public accountants prior to 1968.

The Institute of Chartered Accountants of Jamaica (the Institute)

32. The Institute was established in 1965 to regulate chartered accountants in Jamaica. It has responsibility for setting accounting and auditing standards. Some of the broad objectives of the Institute are to:
    a) promote and increase professional knowledge through training;
    b) regulate the discipline and professional conduct of Jamaican accountants;
    c) develop and set standards to ensure the integrity and soundness of the accountancy profession.

33. The Institute has approximately 800 members of which 200 are practicing members authorized by it to carry out audits. Members authorized by the Institute to practice are entitled to practicing certificates from the Public Accounting Board (PAB). There is no requirement for all registered public accountants or accountants in general to become members of the Institute. The four major international professional services firms are represented in Jamaica. Three of the four are the auditors of virtually all listed companies operating in the country.

34. The PAB and the Institute entered into an agreement to share responsibilities to ensure unified standards for the control, monitoring and discipline of all registered public accountants in Jamaica and to improve the effectiveness of the PAB as the legal authority for the oversight of registered practicing accountants in Jamaica. The financial services regulators rely significantly on external auditors of the regulated entities to ensure compliance with accounting and financial reporting requirements and to report compliance failures. These firms are the primary source of knowledge on IFRS and ISA issues and share this knowledge routinely with the regulators. This is attributable to the fact that these regulators are still in the process of strengthening the standards and procedures and building capacity to monitor and enforce compliance.

35. Currently, financial reporting compliance is monitored by reviewing published financial statements of all publicly listed companies and regulated entities. With the support of the Inter-American Development Bank under a cooperation agreement, the Institute is in the process of establishing a more comprehensive monitoring and compliance programme. This programme will include peer reviews of auditing firms, practice management reviews and identifying resource gaps.

36. The Institute is also collaborating with The Institute of Chartered Accountants of the Caribbean (ICAC) to establish a regional monitoring unit with responsibility for the evaluation and assessment of the quality of audit and other public practice work in member countries. The implementation of this unit will ensure transparency of the quality of audits and other public practice work. The arrangement with the ICAC is intended to facilitate independence in the practice monitoring process.

37. The Institute is a member of International Federation of Accountants (IFAC) and requires its members to comply with IFAC’s ethical, professional and educational

standards. The standards issued by the Institute include the standards issued by the IFAC in addition to those promulgated by the Institute. Professional education requirements for becoming a member of the Institute are consistent with international standards and must meet continuing professional developments requirements of at least 35 hours of qualifying professional education annually, over three years. In response to this requirement, the Institute hosts a number of educational training programmes, which are also promoted to the wider community.

Companies Office of Jamaica (formerly, Office of the Registrar of Companies)

38. The Companies Office of Jamaica falls under the Ministry of Industry, Commerce and Technology with responsibility for the day-to-day administration of companies, trademarks, industrial designs, industrial and provident societies, business names and recording of patents.

39. The organisation registers local and overseas companies, Industrial and Provident Societies and individuals carrying on business in Jamaica. Its mandate is to ensure that there is compliance with the Companies Act, the Registration of Business Names Act and the Industrial and Provident Societies Act. It also maintains up-to-date records of all companies and businesses registered.

40. All companies registered under the Companies Act must file prescribed returns including annual returns with the Companies Office of Jamaica. This agency is empowered to take legal action against delinquent entities to enforce compliance.

Jamaica Stock Exchange

41. The Jamaican Stock Exchange (JSE) was incorporated as a private limited liability company in August 1968 and commenced trading in February 1969. Its primary objectives are to:

- promote the development of the stock market in Jamaica;
- ensure the stock market and participants operate at the highest standard;
- develop and enforce rules designed to ensure public confidence in the market;
- provide facilities for the trade of stock; and
- conduct research and provide information to and on the market.

42. The company has a Board of Directors consisting of 18 members and facilitates trade in securities, shares, ordinary and preference and corporate bonds. Government bonds are not listed on the Jamaican Stock Exchange but by the Bank of Jamaica in an over-the-counter market. Listing of securities on the JSE is however, at the absolute discretion of the Council of the JSE. The minimum requirements for listing of a company's securities are:

- total issued share and loan capital of $500,000 or more,
- minimum number of 100 shareholders for companies with ordinary shares.

43. Companies incorporated in Jamaica may be listed by a prospectus issue, an offer for sale, an offer by tender, a placing or an introduction. In 2000 the JSE establish the Jamaica Central Securities Depository. Arising from this development share

certificates are dematerialized. There has been increased global attractiveness of the stock market through adoption of generally accepted international standards.

Financial reporting and disclosure

44. Jamaica has a differential disclosure regime for financial reporting purposes. The types of companies may be classified as:
    a) Publicly listed and regulated companies;
    b) private companies;
    c) small companies.

45. All companies are required to prepare annual financial statements. These statements must be audited and circulated to the members, except for small companies that may claim exemption under the Companies Act. Companies are also required to file annually with Companies Office of Jamaica a true copy of the balance sheet and profit and loss account together with a copy of the auditors' report.

46. In addition to meeting the disclosure requirements, publicly listed companies are required to file with the Jamaica Stock Exchange and publish in the media quarterly abridged financial statements. These must be accompanied by a directors' report and signed by at least two directors.

47. Companies file their annual financial statements within ninety days of their financial year end and quarterly financial statements within forty-five days of the end of the quarter. Qualifying small companies may seek exemption under the Companies Act from audit of its financial statements and from preparing the financial statements to comply with IFRS.

48. There are three important areas of the Jamaican financial reporting framework that must be observed:
    a) IFRS must be used by all entities in their preparation of financial statements. Qualifying small companies that elect exemption to prepare these financial statements and accordingly may omit to do so, but must apply the standards issued by the Institute of Chartered Accountants of Jamaica that are applicable to their nature and complexity to show a true and fair view of their state of affairs and results of operations;

    b) International Standards on Auditing (ISA) must be used for the purpose of auditing financial statements;

    c) monitoring of the system to ensure there is compliance with the Companies Act and IFRS in the preparation of financial statements and that the financial statements are audited in accordance with ISA.

III. Capacity-building

49. One of the challenges confronting a developing country such as Jamaica is the creation of a sustainable economic environment that promotes adequate corporate disclosure and is supported by an effective legal and regulatory infrastructure. The

benefits of underpinning the country's financial reporting system with a set of high-quality globally recognized financial reporting standards are considered significant in achieving this end.

50. Reporting under IFRS gives rise to expected outcomes of clarity, comparability and consistency, which are important elements for an investor in assessing a country's attractiveness. It was important therefore for Jamaica to build the capacity to sustain an improved financial reporting framework bolstered by an efficient and responsive legal and regulatory infrastructure. Some key elements that have been identified as critical underpinnings for the sustainability of this framework are:
    - professional education and training;
    - sound corporate disclosure to be achieved through an effective process of dissemination of corporate reports;
    - allocation of resources;
    - efficient monitoring and compliance.

    The anticipated results from the implementation of these elements were:

    - stimulation of a system of broader conformity;
    - improved investor confidence;
    - general public esteem; and
    - enhancement of the profession's reputation.

51. The Institute of Chartered Accountants of Jamaica as a key driver in this process of change towards an enabling environment of legal and regulatory frameworks identified a number of challenges that require specific actions as part of this process of strengthening the institutional and human resource capabilities and contributing to a wider system of capacity-building.

52. The capacity-building agents identified are the:

- **Regulators**: These agencies were created and empowered by specific Acts and regulations to issue mandates and enforce compliance. Therefore, efficiency and effectiveness of the regulatory framework is influenced by how well regulatory agencies perform.

- **Investors:** Investors benefit when financial statements, accounting standards and auditing procedures are prepared on a consistent basis and are comparable across industry and countries. Investors must be empowered with adequate knowledge to be able to interpret the financial statements and understand the basis for fluctuations and swings in the performance of companies and the market.

- **Government ministries**: The government sets macro-economic policies that influence economic growth and national focus. The government is also responsible for the enactment of laws that create the legal system. The governments understanding of the relationship between an effective legal and regulatory system and economic growth is an important factor in capacity building.

- **Accountancy profession**: The critical capacity-building agent in the successful implementation of the IFRS in Jamaica is the Institute of Chartered Accountants of Jamaica. The accountancy profession, represented by its Institute, designed and championed the transition to IFRS to enhance the financial reporting system. This process includes peer-to-peer learning, institutional development, training, research and publishing.

- **Stakeholders**: financial analysts and other users. Financial analysts are expected to be able to assess the quality of a company's reported performance and evaluate the appropriateness of management's forecasts. Similarly, other users should have the competence to understand the company's business and whether the business model is consistent with reported results. The stakeholders include other sectoral interest groups, including academics.

53. Four key focus areas adopted as part of the programme of transition included:

- training;
- human resource development – equipping individuals with increased knowledge, information and training to ensure they are able to perform at a higher standard;
- organisational development – providing guidance in how to improve processes and structures to effectively apply the provisions of the new standards;
- institutional and regulatory framework – enhancing the resource capability of the Institute as a source of reference, collaborating with regulations by inviting their participation in committee discussions and assisting them with training; also, contributing to debates on legal and regulatory changes.

54. Some specific areas undertaken as part of the process to ensure the successful and sustainable effectiveness of the new reporting framework are as follows:

a) build expertise and professional capacity within the accountancy profession. This has been achieved through increased level of training, improved access to by-laws and accounting principles, as well as through a programme of improved collaboration and cooperation with regulators, particularly within the financial sector. Increased collaboration was also forged with professional and trade associations;

b) strengthen the Institute's oversight capabilities. The interest was to establish "Expert Committees" on each major sectoral interest, including taxation, accounting and auditing, banking and other activities addressed under the Banking Act, near-bank and related activities covered under the Financial Institutions Act and Insurance Act. The Committee members were intensely trained in the relevant subject area to provide the appropriate guidance, as well as. Additionally, the intent has been to strengthen the investigative and disciplinary capabilities of the Institute to provide effective oversight over delinquent members and to be able to identify and report breaches of non-members, as appropriate;

Significant improvements have been made by the regulators in enhancing their capacity to provide effective oversight over their sectoral areas. Laws have introduced or strengthened to increase the penalties for violations. The programme also included the creation of a resource/research centre as an information source to members of the Institute and the wider community.

c) assist in strengthening the legal framework;

Efforts continue to be made to encourage the establishment of a regional monitoring unit to promote individual and firm-wide compliance with the standards. The Institute has been working with the relevant bodies to overcome the legal restrictions in some regional territories. The desire is to have a single regional monitoring unit that covers the eight major English speaking countries of the region.

d) collaborate with trade associations and regulators to promote good governance practices;

The decision to adopt IFRS and ISA as the national accounting and auditing standards, respectively, was deemed an important step in enhancing the financial reporting capacity. It was however, also important to ensure that this capacity was further strengthened by rigorous interpretation and application of the standards on a country-wide basis. In this regard, the Institute entered into a technical cooperation agreement with Inter-American Development Bank for funding assistance. The broad areas of the Agreement are:

- the dissemination of information on IFRS;
- training and outreach;
- building enforcement and compliance capabilities of IFRS;
- building for sustainable training programmes.

Following the Institute's decision to transition to IFRS, the World Bank sponsored an assessment of the implementation of accounting and auditing standards as part of a programme to determine the gaps in standards and compliance. The review was undertaken as part of a programme of the Reports on the Observance of Standards and Codes (ROSC) initiative.

Utilizing the results of the ROSC review and recognizing that elements of the gaps identified were due to human and institutional resource constraints, the Institute committed itself to building financial resources to ensure its capacity building efforts would be sustained.

e) develop a Country Action Plan, setting out a logistic framework of targeted activities to be completed within a specified period.

This included having road shows to explain the objective, consequences and benefits of the change to global standards and the need for compliance, sensitizing government ministers of the potential impact of the conversion to IFRS, including the benefits and regulatory synergies to be derived, meeting with business leaders and guiding them on how to communicate the impact of the change on business performance and the market as a whole, including the need to review the effects on agreement covenants. Involve the auditing firms as channels for communicating to and assisting with the training programme, including specific training for their clients.

f) design and implement a task-driven action programme that includes:

- the Consultative Committee, comprising among others, sectoral experts to be fully functional to assist on an ongoing basis;
- a strategic publicity and educational programme that addresses important IFRS and ISA issues in the media routinely, the Institute's website and communicated at specially arranged seminars and workshops;
- strategic seminars and workshops conducted by internationally recognized experts to train users and preparers of financial statements, develop ability to interpret and apply the standards;
- develop a programme of review of financial statements and communicate significant findings to the lead engagement auditors;
- hosting 'train the trainer' sessions utilising international experts to build a cadre of targeted local trainers to ensure sustainability of a high quality of trainers;
- promote efforts to legislate the requirement to prepare their financial statements using IFRS. This is achieved by participating in special review of Companies Act 2004 to include this requirement;
- reliance on auditing firms to build and utilize their training skills and competence to assist in building stakeholders' awareness. The requirement also included hosting training sessions for their clients and provided them with helpful toolkits to guide them in the conversion process;
- strengthening the Institute's by-laws and disciplinary committees to ensure sanctions are applied for major violations;
- identifying a set of standards that are applicable to small entities and adopt them as the small company standards. Currently, these companies need to apply IFRS under the Companies Act.

IV. Lessons learned

55. The creation of an enabling environment that is bolstered by an effective regulatory framework is an important factor in the economic development of a country. To ensure investor attractiveness such an economy must have a strong financial reporting framework evident by high quality global standards.

56. The adoption of IFRS in 2002 helped to strengthen Jamaican financial systems by encouraging stronger regulation and supervision, greater transparency and more efficient and robust institutions, markets and infrastructure. It also represents a major change in the country's reporting structure.

57. The ethos of IFRS is fair value accounting and that presents interpretational and applicational challenges for most stakeholders. The underlying emphasis of this concept is the recognition of the substance over form of a transaction. The potential vulnerability in reported results arising from fluctuations in the value of assets and liabilities was consistently illuminated in discussions with market players. There are underlying fears that must be overcome. Many deemed IFRS as more relevant to

multinational corporations and in most instances, inappropriate to smaller size entities as exist in developing economies such as Jamaica. However, the expected outcome that include increased financial stability, better investment and lending decisions, informed market integrity and reduced risk of financial distress and contagion outweigh the disadvantages.

58. Some key lessons learned from exercise are:

(a) Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support with strong management systems. Unless stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change.

(b) The communications system for informing users of the changes in reporting requirements must be effective and responsive. Users of financial statements have to be able to interpret financial reports and raise questions about an entity's performance. Efforts to build good corporate governance and enhance corporate transparency will be successful only when these key stakeholders have the desired knowledge to understand the financial reports and interrogate reported information.

(c) Adequate resources must be put in place to support the sustainable implementation of IFRS and ISA. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training. Assisting key stakeholders, including regulators with training to ensure they have the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.

(d) Many of the standards include complex and detailed disclosure issues applicable to larger companies. However, as the majority of companies in Jamaica are small- or medium-sized enterprises, alternatives have to be put in place to accommodate their needs. Suitable standards must, therefore, be developed to facilitate recognition of these companies.

(e) Continuing training is an important factor in transitioning to IFRS. The continuous and wide scale changes present a significant challenge for a developing country with limited resources and available experts. It is however, important to ensure that training is available for auditors, regulators, analysts and other users necessary.

(f) Strong institutional framework must be in place to champion and manage the change process.

(g) The adoption of IFRS can have an impact on the country's national statistics. Data on productivity, efficiency and profitability are often times collected by the government statistical authority for national reporting.