Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

36th SESSION
30 October – 1 November 2019
Room XIX, Palais des Nations, Geneva

Thursday, 31 October 2019
Afternoon Session

Agenda Item 4. Review of current developments in international standards of accounting and reporting in the public and private sectors

Presented by

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DYNAMICS IN THE IMPLEMENTATION OF NEW IFRS

ISAR 36 CONFERENCE

SARA ALSARQHALI AND HOLGER DASKE
Overview

What

• **Dynamics of IFRS implementation** in eight selected jurisdictions that vary in their IFRS implementation methods (i.e., the way they incorporate IFRS into national law)
• Not only at initial adoption, but also **over time when new pronouncements are issued**
• **Goal to detect magnitude and types of deviations from IASB-IFRS**, and derive some tangible insights and policy recommendations to foster consistent adoption

Why

• Different **perceptions** regarding their magnitude
• So far focus on deviations of **content** only (as issued), but **not on timing** (when issued)

Main New Insight

• Significant variation in **when** new IFRS pronouncements get binding for IFRS reporting firms in adopting jurisdictions (due to **delays** and **changes in effective dates**)

Dynamics in the Implementation of new IFRS
Defining Deviations from IASB-IFRS

1. **Not adopting** a complete pronouncement
2. Not adopting part of a pronouncement (**carve out**)
3. Adding to the body of IFRS (**carve in**)
4. Changing the **scope** of the standard
5. Less than full **scope** of adoption (granting exemption for certain entities)
6. Changing the **effective dates** (national effective date is different from IASB effective date)
7. Using an **outdated version** (not updating pronouncements)
8. **Delay** is the difference between the national issue date and IASB effective date:
   - Where the national effective date equals IASB effective date and the national issue date comes after IASB effective date
9. Delays in making **translations** into all official local languages in a country available
10. Deviations in the use of the **IFRS label** (usage of hybrid or national labels such as K-IFRS)
**Zeff and Nobes (2010) Framework**

- **Adopting the IASB process**
  - most likely

- **Inserting into law**
  - very likely

- **Full convergence**
  - possible

- **Endorsement**
  - allowed

- **Allowing IFRS**
  - unlikely

- **Partial convergence**

**Dynamic, country specific story**
Requires regulators and standard-setter involvement

Firm compliance scenarios

Likelihood of firm compliance decreases
1. Establish a benchmark
   • List of all types of IASB pronouncements (2003-2018), and effective date

2. Collect and process documents legalizing IFRS in each jurisdiction
   • Google translation tools to translate non-English documents
   • Manually review each document to link it to the corresponding IASB pronouncement

3. Comparison
   • For **timing deviations**, we compare national effective dates with IASB effective dates
   • For **content deviations**, we read the IASB document and the corresponding national version searching for deviation in content (e.g., deletions or additions) by comparing paragraphs numbers and length
This example illustrates our method of obtaining information for jurisdictions not using English. The original document is in Turkish (left) and we base our information on the English translation (right). From this first screening, we are able to identify the implementation date in Turkey (used in our calculation as listed in Table A2) and to relate the communique to a corresponding IASB pronouncement which is the IAS 7 amendment issued by the IASB on 29 January 2016 effective for annual periods starting 1 January 2017 (see illustration 2).
This example illustrates our method of reviewing the content of the translated pronouncement. The IASB pronouncement regarding IAS 7 amendments (left) and the Turkish communique inserting it into Turkish law (image) are compared. As can be seen, the communique includes the same paragraphs in terms of number and approximate length. We do not compare the exact wording as differences will naturally exist due to translation. Google tools serve to help us collect data not to evaluate the accuracy of translation.
Illustration 3

<table>
<thead>
<tr>
<th>IAS 17 Leases (2005, IASB)</th>
<th>FRS 17 Leases (2005, Singapore)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paragraph 14:</strong></td>
<td><strong>Paragraph 14:</strong></td>
</tr>
<tr>
<td>Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.</td>
<td>Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets.</td>
</tr>
</tbody>
</table>

* The 2009 amendment to IAS 17 Leases eliminated the deviation between FRS 17 Leases and IAS 17 Leases.
Core Findings & Policy recommendations

Most carve outs and carve ins occurred at initial adoption of IFRS and faded over time

- Due to transitional options
- Due to later changes made by the IASB to cater to deviating jurisdictions’ environments
- Due to increased efforts of the IASB to encourage local jurisdictions to participate early

Dynamics - Jurisdictions Struggle to keep pace with the IASB’s production process

- Many delays create uncertainty for preparers
- Delays can lead to de facto changes in effective dates
- Effective dates are also actively changed
- Significant issues in magnitude and frequency
- Prevent comparability in the adoption year of a new standard

Policy recommendation

- Timing deviations should be addressed in the regulatory circles
- Local jurisdictions are advised to critically (re-)evaluate the lengthiness of their implementation process
Core Findings & Policy recommendations

The IASB issuance policy is an important factor in causing/avoiding unnecessary deviations

- Lead Period / Piecewise major standards / Translation
- Provide sufficient lead time to decrease the likelihood of local changes in effective dates
- Issue complete standards to avoid cases of non-implementation similar to IFRS 9
- IFRS standards should be translated into all official languages in a country

Diversity in the usage of IFRS Label

- Jurisdictions achieving full compliance do not necessarily use the IFRS label
- Firms sometimes not even allowed to reference IFRS
- Underestimate the extend of perceived IFRS application

Policy recommendation

- Usage of alternative “accounting policy”-labels should be minimized. At the minimum, (i) reference to IFRS should be visibly included in the national label and (ii) dual referencing/reporting to local standards and IFRS (as issued by the IASB) should be allowed
## Summary of Results

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Method</th>
<th>Label</th>
<th>IFRS Label</th>
<th>Type of Deviations</th>
<th>Changes</th>
<th>Delay</th>
<th>Delay (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>Inserting into Law</td>
<td>TFRS</td>
<td>Not allowed</td>
<td>Delay (33)</td>
<td>Time</td>
<td>_</td>
<td>33 14 124 350</td>
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<tr>
<td>Canada</td>
<td>Inserting into Law</td>
<td>IFRS</td>
<td>Not prohibited</td>
<td>1) Delay (1) 2) Less than full scope adoption (3)</td>
<td>Scope</td>
<td>_</td>
<td>1 59 59 59</td>
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<tr>
<td>Malaysia</td>
<td>Full Convergence and IFRS</td>
<td>MFRS</td>
<td>Required</td>
<td>Less than full scope adoption (2)</td>
<td>Scope</td>
<td>_</td>
<td>_ _ _ _ _</td>
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<td>South Korea</td>
<td>Full Convergence</td>
<td>K-IFRS</td>
<td>Not allowed</td>
<td>Not implementing a pronouncement (1)</td>
<td>Scope</td>
<td>_</td>
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<tr>
<td>EU Endorsement adopted by the EU</td>
<td>IFRS as Not pronounced (4)</td>
<td></td>
<td></td>
<td></td>
<td>Content</td>
<td>Scope</td>
<td>39 75 21 136 403</td>
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</tbody>
</table>

1) Delay (75)
2) Not implementing a relevant pronouncement (4)
3) Change in effective date (39)
4) Carve out (2)
5) Change in scope (1)
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<tr>
<td>Russia</td>
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<td>Required</td>
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<td>23 154 220</td>
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<td>Convergence</td>
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<td>1) Delay (15)</td>
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<td>2) Not implementing a relevant pronouncement (1)</td>
<td>Content</td>
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<td>15 5 51 121</td>
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<td>3) Changing the effective date (14)</td>
<td>Scope</td>
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<td>4) Exemptions and modifications (3)</td>
<td>Time</td>
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<td>India</td>
<td>Partial</td>
<td>Ind AS</td>
<td>Not allowed</td>
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<td>Convergence</td>
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<td>Content</td>
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<td>2) Changing the effective date (2)</td>
<td>Scope</td>
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<td>3) Carve out (7)</td>
<td>Time</td>
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<td>4) Carve in (1)</td>
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<td>5) Textual changes</td>
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