United Nations TD/B/COM.2/ISAR/37

United Nations Conference on Trade and Development

Distr.: General
21 August 2007

Original: English

Trade and Development Board
Commission on Investment, Technology and Related Financial Issues
Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
Twenty-fourth session
Geneva, 30 October–1 November 2007
Item 3 of the provisional agenda

Review of practical implementation issues of International Financial Reporting Standards

Note by the UNCTAD secretariat

Executive summary

In concluding its twenty-third session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) agreed to conduct additional studies and reviews to gain further insight into the challenges faced by developing countries and countries with economies in transition in meeting international requirements for high-quality and adequate standards with a view to developing guidance on good practices. Accordingly, three country case studies covering Pakistan, South Africa and Turkey have been prepared for consideration by the twenty-fourth session of ISAR.

This note presents a summary of the main practical implementation issues identified in the case studies. These include: practical implementation issues in the areas of regulatory framework, enforcement and technical capacity-building. The detailed findings of the case studies can be found in the documents TD/B/COM.2/ISAR/38, TD/B/COM.2/ISAR/39 and TD/B/COM.2/ISAR/40.

GE.07-51642

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I. Introduction

1. The important role of the private sector in the economic development of member States has been recognized for a long time. Over the years, financing economic development has become more competitive. Economic resources have become more mobile across borders. Enterprises that provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment. The United Nations has been providing an inclusive forum where member States exchange views and experiences on promoting reliable and comparable corporate reporting. In October 1982, the Economic and Social Council established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

2. At the tenth session of the conference (UNCTAD X), held in Bangkok, Thailand, in February 2000, member States requested UNCTAD to "promote increased transparency and disclosure by encouraging the use of internationally recognized accounting, reporting and auditing standards and improved corporate governance" (paragraph 122 of the Bangkok Plan of Action). Furthermore, at UNCTAD XI, held in São Paulo, Brazil in June 2004, member States reaffirmed the Bangkok Plan of Action and requested UNCTAD to "collect, analyze and disseminate data on best practices for stimulating enterprise development, and identify ways and means for enterprises, especially developing countries' SMEs, to meet international standards, including accounting standards" (paragraph 55 of the São Paulo Consensus).

3. ISAR has so far held 23 annual sessions. At the beginning of 2005, an unprecedented number of enterprises and countries around the world adopted International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as their basis for preparing financial statements. In light of this development, at its twenty-second and twenty-third sessions, ISAR deliberated on practical implementation issues of IFRS. At its twenty-second session, ISAR reviewed trends in the IFRS convergence process and major practical implementation issues that were arising in the implementation of IFRS. These pertained to institutional development, enforcement and technical implementation capacity issues. At its twenty-third session, ISAR reviewed practical IFRS implementation issues, including case studies of Brazil (TD/B/COM.2/ISAR/33/Add.1), Germany (TD/B/COM.2/ISAR/33/Add.2), India (TD/B/COM.2/ISAR/33/Add.3), Jamaica (TD/B/COM.2/ISAR/33/Add.4) and Kenya (TD/B/COM.2/ISAR/33/Add.5).

4. At the conclusion of its twenty-third session, the group of experts reiterated the importance of principles-based, high-quality financial reporting standards, such as IFRS, for the coherent and efficient functioning of the international financial architecture, as well as the mobilization of financial resources for economic development. Participants at the session stressed the importance of a forum such as ISAR, where member States could share their views and experiences in this area, and identify best practices and guidance with a view to promoting harmonization, thereby facilitating the flow of investment.

5. At its twenty-third session, the group of experts recognized that – following the widespread adoption of IFRS in 2005 by a large number of countries and enterprises – various stakeholders, including regulators, preparers, users and auditors continue to encounter practical implementation challenges. In particular, the group of experts recognized that an effective regulatory regime, as well as an adequate audit system and professional education requirements, should be in place to facilitate the successful implementation of IFRS. The

group also recognized that implementation is a long-term process and requires a defined strategy and appropriate mechanisms in order to build institutional and technical capacity supported by adequate resources.

6. In concluding its deliberations at the twenty-third session, the group of experts agreed to conduct additional studies and reviews to gain further insight into the challenges faced by developing countries and countries with economies in transition in meeting international requirements for high-quality and adequate standards with a view to developing guidance on good practices. Accordingly, three country case studies covering Pakistan, South Africa and Turkey have been prepared for consideration by the twenty-fourth session of ISAR. The objective of these case studies is to draw lessons learned in the practical implementation issues of IFRS and share these with member States that are either implementing IFRS or that intend to do so in the future. While a comprehensive review of practical implementation of IFRS requires a wider scope and analysis, the country cases have provided useful insights. The individual country case studies can be found in the following documents: Pakistan – TD/B/COM.2/ISAR/38; South Africa – TD/B/COM.2/ISAR/39; and Turkey – TD/B/COM.2/ISAR/40.

II. Recent trends towards convergence to IFRS

7. During the inter-sessional period following the twenty-third session of ISAR, a number of developments indicating the growing convergence towards IFRS have occurred around the world. The chairman of IASB expects that in about five years, the number of countries that require or allow use of IFRS will probably have grown to 150. He also expects that countries that have converged to IFRS by then will face problems in attracting investment.[1]

8. In July 2007, further to the announcement by the Central Bank of Brazil in early 2006 of its decision to require all financial institutions in the country to apply IFRS by 2010 for preparing their consolidated financial statements, the Securities and Exchange Commission of Brazil issued rule number 457.[2]

9. In January 2007, the Minister of Finance and Economic Planning of Ghana formally launched the adoption of IFRS in his country. By December 2007, listed companies, government business enterprises, banks, insurance companies, securities brokers, pension and investment banks, and public utilities are expected to prepare their financial statements in accordance with IFRS.[3] In his address to participants at the launching, the minister referred to a Report on the Observance of Standards and Codes (ROSC) on Ghana that the World Bank issued in March 2006, and noted that the adoption of IFRS would address certain weaknesses the ROSC of Ghana has identified.[4]

10. Earlier this year, the Institute of Chartered Accountants of India formed an IFRS convergence task force to look into various convergence issues and prepare a road map for full convergence with IFRS.[5] At its 269th Council meeting in July 2007, the institute decided to bring Indian accounting standards fully in line with IFRS by 1 April 2011. Listed companies in India will first be

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[1] Sir David Tweedie in an interview with the *Journal of Accountancy* of the American Institute of Certified Public Accountants, July 2007: 36–39.
[2] *Gazeta Mercantil*, 16 July 2007.
[3] "Ghana adopts international reporting standards". *The Statesman*, 25 January 2007, Ghana.
[4] Speech by Minister Kwadwo–Baah Wiredu, Minister of Finance and Planning of Ghana on 23 January 2007 at the formal launching ceremony of IFRS in Ghana.
[5] *The Chartered Accountant.* May 2007: 1,695. Institute of Chartered Accountants of India.

required to prepare their financial statements in accordance with IFRS. Other entities will be brought under the IFRS regime in a phased manner.[6]

11. In March 2007, the Financial Supervisory Commission and the Accounting Standards Board of the Republic of Korea announced that by 2009, all companies in the country, other than financial institutions, will be permitted to apply IFRS as adopted by the Republic of Korea. Use of IFRS will become mandatory starting in 2011.[7]

12. In response to a request from the Ministry of Finance of Ukraine, the UNCTAD secretariat co-organized a regional conference held in Kiev from 28 February to 1 March 2007 under the title "International financial reporting standards: Experiences and perspectives of implementation in countries with economies in transition". This event was particularly useful in identifying practical challenges and in sharing the experiences of those who have already undertaken practical steps in the implementation of IFRS that are of special relevance to countries with economies in transition.

13. At the conclusion of the Symposium on international convergence of accounting in emerging markets and transition economies, which took place in Beijing in mid-July 2007, participants launched the Beijing Initiative, which calls on emerging markets and transition economies to build up a clear concept about international convergence of accounting, and take action to develop a plan on convergence with IFRS. Participants proposed setting up an annual forum on international convergence of accounting in emerging markets and transition economies. They also proposed creating a regular exchange mechanism to improve and implement various suggestions participants proposed. The symposium was jointly hosted by IASB and the Ministry of Finance of China.[8]

14. In July 2006, IASB announced it would not require the application of new IFRSs under development or major amendments to existing standards before 1 January 2009.[9] This in effect provides four years of a stable platform for those entities that adopted IFRSs in 2005. At the same time, IASB also announced its intention to allow a minimum of one year between the date of the publication of wholly new IFRSs or major amendments to existing IFRSs and the date when implementation is required. This was in recognition of the time many countries require for translation and implementation of new standards into practice, and in certain circumstances where IFRSs are legally binding processing new standards through the legislative system.

15. One issue that often arises in the practical implementation of IFRS is whether small and medium-sized enterprises (SMEs) should be required to apply IFRS. Over the years, with the growing volume and complexity of IFRS, it has become more widely recognized that SMEs need a less burdensome set of standards. IASB has been working towards this goal. In February this year, IASB published for public comment an exposure draft of an IFRS for SMEs.[10] The proposed IFRS for SMEs is intended to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies. It is based on full IFRS. Along with the 254-page exposure draft, IASB also issued implementation guidance consisting of illustrative financial

[6] "Indian accounting standards to match global norms by 2011". *Business Standard.* New Delhi. 22 July 2007.

[7] Press release of 16 March 2007. The Financial Supervisory Commission and Korea Accounting Institute.

[8] http://www.mof.gov.cn/news/20070713_1500_27121.htm

[9] "IASB takes steps to assist adoption of IFRS and reinforce consultation: No new IFRS effective until 2009". IASB press release. 24 July 2006.

[10] Exposure draft of a proposed IFRS for small and medium-sized entities. International Accounting Standards Board, London, February 2007.

statements and a disclosure checklist. The exposure draft has been translated into French, German and Spanish. Comments are due by 1 October 2007. According to the IASB work programme, a final version of the IFRS for SMEs is expected by the second half of 2008.

16. In July 2007, the United States Securities and Exchange Commission (SEC) published for public comment a proposal to eliminate current requirements in the United States that foreign private issuers that file with the SEC their financial statements using IFRS as published by IASB also file a reconciliation of those financial statements to United States Generally Accepted Accounting Principles (GAAP). The proposal would enable foreign private issuers who prepare financial statements that comply with the English language version of IFRS as published by IASB to file those financial statements in their annual filings and registration statements without reconciliation with GAAP.[11] The commenting period on the SEC proposal is 75 days after it is published in the Federal Register.

17. Furthermore, the SEC unanimously voted to publish a concept release for public comment on allowing listed companies in the United States, including investment companies, to prepare their financial statements using IFRS as published by IASB. At present, United States listed companies are required to prepare their financial statements in accordance with GAAP.[12] Once the concept release is published in the Federal Register, the commenting period will run for 90 days.

18. Enforcement authorities in several jurisdictions are putting in the public domain their observations concerning IFRS-based financial statements they have reviewed. This is being done mainly with a view to promoting more consistent application of IFRS by entities in their respective jurisdictions. For example, in December 2006, the Financial Reporting Review Panel of the Financial Reporting Council of the United Kingdom published a preliminary report on implementation of IFRS.[13] Among other issues, the panel noted in its report that there was a tendency for companies to use generic language in describing the accounting policies they followed. In this respect, the panel encouraged companies to describe the accounting policies applied in practice, including information specific to their particular circumstances. Other areas the panel commented on include disclosure of judgments and estimates, possible impact of new standards and interpretations, sufficiency of disclosure with respect to impairment testing, related party disclosures, and presentation of financial statements.

19. Earlier this year, the Netherlands Authority for Financial Markets shared with companies listed in the Netherlands its observations on its review of 2005 IFRS-based financial statements.[14] The authority indicated that the "top five" IFRS financial reporting areas on which it raised questions with preparers who filed with it their 2005 financial statements were: (a) IAS32/39: financial instruments, including disclosure, presentation, recognition and valuation, the main questions in this area pertaining to equity versus liability classification in the balance sheet and omission of related disclosers; (b) IAS 12: income taxes, pertaining to deferred tax balances and effective tax rates; (c) IFRS 1: first-time

[11] United States Securities and Exchange Commission. Press Release No. 2007-128, 3 July 2007, Washington, DC.

[12] United States Securities and Exchange Commission. Press Release No. 2007-145, 25 July 2007, Washington, DC.

[13] *Preliminary Report on Implementation of IFRS*. Press Notice No. 98, Financial Reporting Review Panel, Financial Reporting Council, United Kingdom, 4 December, 2006.

[14] The Netherlands Authority for Financial Markets. Letter to companies, reference no. TFV-AJDe-07012880, 12 February 2007.

adoption of IFRS, in relation to general level of transparency in this area and also differences between Dutch Generally Accepted Accounting Principles and IFRS; (d) IAS 1: presentation of financial statements; and (e) IAS 17 leases.

20. In a special issue of Standard & Poor's *CreditWeek* published at the beginning of the year, the credit rating agency indicated that IFRS generally enhanced the consistency of data used for comparative analysis in rating companies that implemented IFRS.[15] However, Standard & Poor's indicated that it found standard language (boilerplate) descriptions of accounting policy notes that contained little specific information on key transactions and corresponding policies uninformative and thus less useful for its purposes of credit rating. The company also indicated that various options in IFRS with respect to accounting policy, transition and presentation limit direct comparison of IFRS-based financial statements. Some of these options pertain to accounting for: borrowing costs, consolidation, valuation of property, plant and equipment, investment property, and inventories; pension and other defined benefit post-retirement obligations; and fair value in relation to financial assets and liabilities.

21. In April 2007, the Committee of European Securities Regulators (CESR) published extracts from its confidential database of enforcement decisions taken by European Union national enforcers of financial information. National enforcers are responsible for monitoring and reviewing financial statements filed by listed companies in their respective jurisdictions, and determining whether they comply with IFRS and other applicable requirements, including relevant national laws.[16] The extracts CESR published do not provide information about which listed company or country to which the enforcement decision relates. However, by sharing such extracts, CERS expects to inform market participants about which accounting treatment European Union national enforcers may consider as complying with IFRS, thereby contributing to consistent application of IFRS in the European Union.

22. The extracts contained enforcement decisions pertaining to business combinations, control of a subsidiary, capitalization of borrowing costs, restructuring plans, carrying value of a trade receivable, assessment of impairment loans, accounting for biological assets, forward purchases and sales of non-financial assets to be settled through physical inventory, redenomination of a foreign currency loan, and accounting treatment of a written puttable instrument on a minority interest.

23. In July 2007, the United States SEC released SEC staff observations of their reviews of annual reports for 2006 of more than 100 foreign private issuers that filed with the SEC for the first time financial statements that were prepared in accordance with IFRS.[17] The staff observations indicate that a vast majority of filers asserted that their financial statements were prepared in accordance with IFRS as adopted in a given jurisdiction. Most filers also asserted that their financial statements complied with IFRS as issued by IASB. Other staff observations include issues such as, among others: (a) variations in income statement formats; (b) classifications of items in cash flow statements; (c) accounting treatments for common control mergers, recapitalizations, reorganizations and acquisitions of minority interests; (d) disclosure on revenue recognition; (e) intangible assets and goodwill; (f) impairments and circumstances surrounding impairment reversals of long-lived assets; (g) leases;

[15] Standard & Poor's, IFRS beyond transition. *CreditWeek* Volume 27, No. 5, 31 January, 2007.

[16] *Extracts from EECS's database of enforcement decisions*. The Committee of European Securities Regulators: 7–120, April, 2007.

[17] http://www.sec.gov/divisions/corpfin/ifrs_staffobservations.htm.

(h) contingent liabilities; (i) financial instruments, including derivatives; and (j) compliance of banks with International Accounting Standard (IAS) 39 in determining loan impairment. The staff observations also indicated substantial variations in accounting for insurance contracts and in the reporting of extractive industry exploration and evaluation activities.

24. With respect to sharing of decisions relating to the enforcement of IFRS at an international level, the final communiqué issued at the conclusion of the thirty-second annual conference of the International Organization of Securities Commissions (IOSCO) stated that, with respect to IFRS, the organization has been working toward convergence and consistent implementation of IFRS by creating an IOSCO database administered by the organization's secretary-general. The database, which was made fully operational in January 2007, is expected to facilitate sharing among securities regulators of decisions relating to the enforcement of IFRS, and also promote coordination and convergence.[18]

25. Most countries that either currently implement IFRS or intend to do so in the future are also implementing or considering implementing International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).[19] At the end of October 2006, the World Federation of Exchanges (WFE) formally endorsed the process for establishing ISAs. WFE represents 57 securities and derivatives exchanges around the world which account for 97 per cent of world stock market capitalization.

26. In February 2007, the Transnational Auditors Committee of the Forum of Firms of the International Federation of Accountants published *Perspectives on the Global Application of IFRS: Good Practices in Promoting a Consistent Approach to International Financial Reporting Standards*.[20] The publication is intended to assist the networks of global accounting firms to avoid differences in how different companies and different teams of auditors in different countries interpret and apply IFRS. The good practices set out in the report are expected to enhance consistency. In the context of the international network of firms, good practices cover areas such as firm leadership for IFRS, organization of the technical function, developing a view on IFRS issues, training, accreditation of IFRS experts, review of IFRS financial statements, support tools for the practice and clients, and integration of IFRS in audit methodology and quality review.

III. Main practical implementation issues of IFRS

A. Overview of case studies

27. The country experiences presented in the case studies indicate that each country has initiated the introduction of IFRS into its financial reporting system at a different point in time. Pakistan started introducing IASs issued by the International Accounting Standards Committee (the processor of IASB) as early as the 1970s. South Africa initiated a similar process in 1993. In Turkey, the process began in 2003. Each country has a stock exchange. At present, the number of companies listed in the Karachi, Johannesburg and Istanbul stock exchanges are 660, 387 and 333, respectively.

[18] International Organization of Securities Commissions. Final Communiqué of the thirty-second annual conference, 12 April 2007.

[19] International Federation of Accountants. World Federation of Exchanges Endorses the IAASB's International Standard Setting Process. Press Release, 27 October 2006, New York.

[20] International Federation of Accountants, Forum of Firms, Transnational Auditors Committee. *Perspectives on the Global Application of IFRS: Good Practices in Promoting a Consistent Approach to International Financial Reporting Standards,* February 2007, New York.

28. The objectives the countries wished to achieve by implementing IFRS are similar in broad terms. Each country endeavoured to raise its financial reporting requirements to internationally recognized benchmarks. There is an additional factor in the case of Turkey. As a country that is negotiating membership with the European Union, implementing IFRS brings Turkey in line with financial reporting requirements in the European Union, thus facilitating economic integration on a regional basis.

29. The case studies of Pakistan and South Africa show the pioneering and leading roles of professional accountancy organizations in introducing IFRS into the economies of both countries. On the other hand, the case study of Turkey indicates that the Capital Markets Board, and subsequently the Turkish Accounting Standards Board, led the IFRS implementation process.

30. Though a number of years have passed since IFRSs were introduced in the countries on which the case studies were conducted, none of them is currently in a position to assert that financial statements prepared by companies listed in its jurisdiction are in full compliance with IFRS as issued by IASB. In Pakistan, efforts are underway to accomplish this goal by 2009. In the case of South Africa, while IFRSs are adopted as issued by IASB, a national level due process is followed before an IFRS issued by IASB takes effect in the country. Although financial reporting standards applicable to companies whose shares are traded in Turkey are Turkish translations of IFRS, there are still certain differences between the two.

31. The case studies illustrate how different countries go about defining the scope of application of IFRS and catering to the needs of SMEs. In Pakistan, there is a three-tiered approach, similar to the one adopted by ISAR when it developed its guidance on accounting and financial reporting for SMEs. IFRSs adopted in Pakistan are applicable to listed companies only. The Institute of Chartered Accountants of Pakistan has developed separate guidance on accounting and financial reporting for SMEs.

32. In South Africa, IFRSs are applicable to listed companies whose shares are widely circulated. The country is considering recommending early adoption of the IFRS for SMEs as a transitional measure. As discussed above, IASB issued an exposure draft of the IFRS for SMEs earlier in 2007. In Turkey as well, IFRSs adopted in the country are applicable only to listed companies whose securities are widely held. The Turkish Accounting Standards Board has been working towards developing financial reporting guidance for SMEs which is expected to be in line with the exposure draft of the IFRS for SMEs issued by IASB.

B. Institutional issues

33. In each of the case studies, corporate financial reporting is governed and affected by a variety of laws enacted through legislative processes and various related rules and regulations. The foundations of financial reporting were formed in Pakistan by the Companies Ordinance of 1984, in South Africa by the 1973 Companies Act, and in Turkey by the Commercial Code of 1957. Obviously, these laws predate the time countries earnestly initiated IFRS. As a result, the regulatory requirements fail to provide clear legal backing for IFRS. For example, South Africa’s 1973 Companies Act requires that financial statements of companies must comply with generally accepted accounting practice. In 1992, an amendment to the 1973 Companies Act introduced the concept of statements of generally accepted accounting principles approved by

the Accounting Principles Board of the country as the basis for financial reporting.

34. However, currently each country is either in the early stages of implementing an amended corporate law or in the process of finalizing a draft law. In Pakistan, an example is the Finance Act of 2007, which amended Section 248 (2) of the Companies Ordinance of 1984. In South Africa, the Corporate Law Amendments Act of 2006, which was issued in April this year, is expected to be implemented in the near future. In Turkey, a new Commercial Code has been drafted and is awaiting enactment through the legislative process. Each of these legal reforms addresses aspects of IFRS in relation to the requirements of corporate financial reporting in the respective country.

35. As noted in previous case studies, the current case studies also demonstrate how fragmentation of regulatory authority over financial reporting by entities in a given jurisdiction impedes efficient introduction and effective implementation of IFRS. For example, in Pakistan, the Companies Ordinance of 1984 requires that surplus on revaluation of fixed assets be shown in the balance sheet after capital and reserves, whereas according to IAS 16 (property, plant and equipment), such surplus should be credited to equity under the heading of revaluation surplus.

36. In each of the countries covered in the case studies, prudential regulation of financial institutions and insurance companies is conducted through institutions and laws that are separate from those that govern the preparation of general-purpose financial statements. For example, in Turkey, the Bank Regulation and Supervision Agency regulates financial institutions. This agency issued accounting standards that financial institutions under its supervision should follow.

37. The case study of Pakistan provides an example where the regulatory agency for banks – the National Bank of Pakistan – prescribes formats for financial statements and other disclosures, which are not necessarily in conformity with IFRS. Similarly, in South Africa, prudential regulation of banks and insurance entities is conducted through laws that are distinct from the regulation of entities in other sectors. The practical implementation issue that arises in this context is the extent to which IFRS-based general-purpose financial statements could be used for prudential regulation. Such an arrangement would require clear understanding to be reached among the different regulators.

38. The introduction of IFRS in the countries included in the case studies has prompted the establishment new institutions or reinforcement of existing ones. For example, in South Africa, the case study shows that the country envisages the establishment of a Financial Reporting Investigation Panel, with a view to contributing to the reliability of financial reports by investigating alleged non-compliance with financial reporting standards and recommending measures for rectification or restitution. In the case of Pakistan, the Off-Site Supervision and Enforcement Department has been established to strengthen enforcement activities of the State Bank of Pakistan.

C. Enforcement issues

39. The full benefits of a global set of financial reporting standards such as IFRS will be realized only when these standards are consistently enforced. Thus, IFRS consist of only one element of the financial reporting infrastructure. The institutions responsible for enforcing IFRS need to realize that, due to the

growing globalization of financial markets, their enforcement efforts often protect both domestic and international investors.

40. The case studies illustrate various aspects of enforcing IFRS in the respective jurisdictions. In Pakistan, the Monitoring and Enforcement Department of the Securities and Exchange Commission of Pakistan (SECP) is responsible for enforcing compliance with IFRS through regular review of the quarterly and annual financial statements published and filed with the SECP by listed companies. In instances where it finds deficiencies or non-compliance with IFRS, it imposes fines and penalties on the preparers and their auditors.

41. In South Africa, the GAAP Monitoring Panel (GMP), which was created by a joint effort of the South African Institute of Chartered Accountants and the Johannesburg Stock Exchange in 2002, is responsible for ensuring compliance with financial reporting standards. Prior to this, there was no regulatory enforcement of financial reporting standards. In Turkey, the Capital Markets Board is responsible for monitoring and enforcing compliance with financial reporting standards by listed companies.

42. The case study of South Africa provides an example of how GMP dealt with cases of financial reporting that were referred to it. The decisions GMP took include withdrawal and re-issuing of financial statements, suspension of listing, and prospective application of amended accounting policies. Some cases were either pending or required no action.

43. Similar to the case studies discussed at the twenty-third session of ISAR, the case studies of Pakistan, South African and Turkey also show that each country is in the process of implementing ISAs issued by IAASB.

44. The case studies show the role of professional accountancy organizations in ensuring compliance with IFRS by their members. In Pakistan, the SECP refers to the Institute of Chartered Accountants of Pakistan (ICAP) chartered accountants the commission finds at fault. The case study indicated that the Investigations Committee of the ICAP received 20 disciplinary cases of its members and the committee dealt with 10 of them, including by suspending membership and referring to the courts. This shows that enforcement of IFRS is a collective effort that needs the cooperation of multiple institutions.

D. Technical issues

45. Practical implementation of IFRS requires adequate technical capacity among preparers, auditors, users and regulatory authorities. Countries that implement IFRS face a variety of capacity-related issues, depending on the approach they take. Pakistan and South Africa have been introducing IASs into their financial reporting systems for a number of years. In the case study of Turkey, within a period of about two years, the country decided to implement IFRS. Unlike in the case studies of Pakistan or South Africa, Turkish standards are translations of IFRS. One of the capacity requirements is therefore to translate IFRS into Turkish in a consistent and efficient manner. In general, while training on IFRS was needed in all countries covered by the case studies, the need appeared to be more pressing in the case of Turkey.

46. The practical application of fair value-based measurement requirements in IFRS presents technical challenges in all countries covered by the case studies. In Pakistan, due to capacity limitations in the banking sector, the implementation of IAS 39 (financial instruments: measurement and recognition) had to be done gradually. In South Africa, there are technical challenges in the application of fair value-based measurements to financial instruments for which

there is no active market or where the market was illiquid, and in circumstances under which management's estimations are needed.

47. The case studies show that, due to the need for following due process at a national level or due to translation requirements, frequent amendments to IFRS create technical challenges. ICAP has adopted a policy that once an IFRS is adopted by the institute and endorsed by the SECP, any subsequent revisions or confirming amendments IASB makes on the standard are considered as adopted, unless otherwise specified.

48. The case studies of South Africa and Turkey illustrate certain technical challenges that are specific to a given economy. In South Africa, implementation of the Black Economic Empowerment initiative brought about a need for technical clarification of accounting for the discount on equity instruments granted to black South Africans or entities controlled by them. The issue of whether to capitalize as intangible asset or expense the amount of the discount granted was brought forward to the International Financial Reporting Interpretations Committee (IFRIC). The issue was resolved when IFRIC issued *IFRIC 8 – Scope of IFRS 2*. South African companies that encounter transactions of this nature now treat discounts (on equity instruments granted) as expenses.

49. In recent years, the Turkish economy has experienced significant inflation. When an economy undergoes hyper-inflationary situations, IAS 29 (financial reporting in hyper-inflationary economies) becomes applicable. However, in Turkey, the provisions of IAS 29 were not applied in full. Financial statements are prepared on historical cost basis, with the exception of revaluation of property, plant and equipment.

50. Another technical implementation challenge discussed in the case study of South Africa pertains to accounting for certain investments in shares of parent companies by subsidiaries in the insurance sector. In certain situations, subsidiaries of insurance companies invest in shares of their holding companies. Such arrangements create a situation where investments would be considered as liability in the financial statements of the parent company. At the same time, these would also be considered as treasury shares and would be deducted from equity.

51. Accounting for leases is another area where technical implementation difficulties are encountered. In the case study of Pakistan, ICAP decided to defer application of Interpretation 4 of IFRIC – determining whether an arrangement contains a lease – to 2009 due to concerns that application of IFRIC 4 would in effect convert Independent Power Producers (IPPs) in the country into leasing companies.

52. As the case study of South Africa shows, the computation of loan loss provisions for doubtful debts could create certain inconsistencies if appropriate clarification is not provided on how preparers should follow the requirements in IAS 39 as they transition form previous requirements such as schedules provided by a regulatory body, in this case the Central Bank.

53. The case study of South Africa illustrates yet another example of how national practice in the area of operating leases was amended to make it consistent with IFRS. Prior practice with respect to operating lease agreements with inflation escalations took into account the impact of inflation, and lease payments were computed and accounted for accordingly. After seeking the necessary clarification from IFRIC and realizing that what needed to be taken into account was not inflation but rather factors that impact on the physical

usage of the asset leased, the South African Institute of Chartered Accountants issued a circular to bring national practice on par with IFRS.

IV. Lessons learned

54. The case studies illustrate different approaches that countries take to implementing IFRS. However, their objectives are more or less similar. The case studies once again confirm that member States see IFRS as an important means of integrating enterprises in their jurisdictions to the international economic system and also as a useful mechanism for fostering investor confidence and attracting foreign direct investment. In deciding when and how to implement IFRS, countries could benefit from the experiences of other countries with similar economic and financial reporting backgrounds that successfully embarked on the IFRS implementation process.

55. Consistent with findings of prior case studies, those of Pakistan, South Africa and Turkey show the need for creating a national coordination mechanism and engaging all stakeholders in the IFRS implementation process early. Preparers, users, regulators, professional accountancy bodies and educators need to be engaged in the planning as well as the implementation of IFRS. The impact of transitioning to IFRS on financial reporting should be communicated as early as possible to avoid any potential surprises.

56. As discussed earlier, the approaches the countries covered by the case studies have taken towards implementation of IFRS, including newly issued standards and interpretations or amendments, require either following due process at a national level or translation to a national language. These elements introduce discrepancies between the body of IFRS issued by IASB that are in effect at a certain time and IFRS required in the countries covered by the case studies. Users, particularly those outside the country, might find such discrepancies creating barriers to direct comparison of financial reports on a global basis. Thus, member States need to pay particular attention to the undesirable effects of any possible discrepancies that the approach they choose could introduce.

57. The case study of South Africa provides findings of surveys carried out in 2005 and 2006 by the accountancy firm Ernst & Young on the preparedness of entities to implement IFRS. The case study of Turkey also discusses findings of a similar survey. These surveys indicate that implementation of IFRS is a complex process that requires extensive preparations, including staff training and changes in information systems. Thus, an IFRS implementation plan needs to take into account the time and resources needed for efficient and effective implementation at the entity level.

58. The three case studies elaborate on the scope of application of IFRS in the respective country. An important aspect of the decision to implement IFRS in a jurisdiction is addressing the accounting and financial reporting needs of SMEs. This is particularly critical in situations where regulation that existed prior to implementation of IFRS does not specifically take into consideration the special needs of SMEs. As ISAR's work on the accounting and financial reporting needs of SMEs shows, IFRS could be burdensome for SMEs to implement. As discussed above, IASB has been working to address the needs of SMEs and it has issued an exposure draft of an IFRS for SMEs. Thus, this development needs to be taken into consideration when defining the scope of application of IFRS in a given economy.

59. The case study of South Africa illustrates how national accountancy firms could contribute to consistent application of IFRS, not only at the national level but also globally. The Technical Partners Forum of accountancy firms in the country identifies technical financial reporting issues that require clarification with a view to avoiding inconsistencies. Members of this forum benefit from their international networks. This approach facilitates technical dialogue among accountancy firms at the national as well as international level, and promotes consistent application of IFRS.

60. Transitioning from national financial reporting standards to IFRS has the potential to create a need for clarification or interpretation of the provisions of certain IFRSs. The case study of South Africa shows how such issues could be resolved by active engagement with IFRIC. While the majority of issues that require clarification or interpretation could pertain to situations that could be applicable to all jurisdictions, certain issues such as black economic empowerment are specific to a country. It is important to work closely with IFRIC rather than create a local interpretation which could lead to divergence of practice.

61. The case study of South Africa provides a good example of how the South African Accounting Practices Committee (APC) promotes participation of the stakeholders in the country in providing input into the IASB standard-setting process. An exposure draft issued by IASB is also issued in South Africa for comment by the APC simultaneously. The input received on the exposure draft issued in South Africa is considered by the South African Institute of Chartered Accountants when drafting its response on the exposure draft to IASB. Proactive engagement with IASB in the early stages of the standard setting process, particularly on practical implementation issues of IFRS, could contribute to reducing requests for clarifications or interpretations when issued.

62. The case studies once again demonstrate the critical role that professional accountancy organizations play in the implementation of IFRS. As discussed in the case studies of Pakistan and South Africa, one dimension of this role is facilitating communication between the national professional body and other stakeholders on the one hand, and IASB on the other. Another dimension of this role is how professional accountancy organizations contribute to promoting regulatory coherence on financial reporting by working closely with various national regulators and resolving practical implementation issues that arise in introducing IFRS.

63. Another important role professional accountancy organizations play is building technical capacity required for implementing IFRS in a sustainable manner. In the initial phase of implementation of IFRS, professional accountancy bodies contribute to technical capacity-building by providing training on IFRS to their members. As discussed in the case study of Pakistan, providing preparers with disclosure checklists on IFRS is an example of the positive roles that professional associations play. Furthermore, professional accountancy organizations also facilitate training geared towards keeping their members updated on new technical developments in the area of IFRS.

64. The case studies of Pakistan and South African provide good examples of how enforcement authorities such as securities and exchange commissions and financial reporting monitoring panels could contribute to more consistent application of IFRS by sharing their findings and enforcement decisions with a view to assisting preparers avoid wrong application of IFRS by learning from the experience of other preparers.

V. Conclusion

65. In this note, the case studies of Pakistan, South Africa and Turkey are summarized. This paper also discusses recent trends towards convergence with IFRS. The findings of the country case studies reiterate the findings of the country case studies that were discussed at the twenty-third session of ISAR. While these studies are of a limited scope and thus not comprehensive enough to draw conclusive views, they provide useful information on the different approaches that member States are taking to implementing IFRS.

66. The case studies provide useful insights into various practical challenges pertaining to institutional development, enforcement and technical issues that member States are facing in implementing IFRS. The country case studies also present various solutions that the respective countries are applying to resolve these challenges. The case studies show that implementation of IFRS is not a one-time process but rather an ongoing exercise that requires sustained efforts by all stakeholders.

67. During its deliberations at its twenty-fourth session, ISAR may wish to consider the following issues pertaining to the practical implementation of IFRS:

(a) What are some of the good practices for coping with new IFRS and major amendments on IFRS that will become effective by 2009? How useful has the extension of the period of “stable platform” been?

(b) IASB and the Financial Accounting Standards Board of the United States are in the process of developing a single converged conceptual framework. What are the implications of this project for countries that are implementing IFRS, particularly for those that are in the early stages of adopting IFRS?

(c) How could preparers of IFRS-based financial statement be encouraged to move away from “boilerplate” type descriptions of accounting policies and other disclosure, and provide more useful specific information that would provide users insights into the substance of transactions and figures on financial statements?

(d) How could the sharing of enforcement decisions pertaining to IFRS be enhanced so that such information is more widely available to a broader range of regulators? For instance, would it be useful to share such information during ISAR sessions?

(e) How could developing countries and countries with economies in transition join efforts and more actively participate in the IFRS standard-setting process?

(f) Would it be useful to assess practical implementation issues of International Standards on Auditing, which are increasingly complementing the implementation of IFRS?

(g) What are some good IFRS technical capacity-building practices that could be shared among member States?