# OVERVIEW OF IFRS

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1. **OVERVIEW OF IFRS**

1.1 **IFRS Background**

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board (IASB) took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards “International Financial Reporting Standards”.

In the absence of a Standard or an Interpretation that specifically applies to a transaction, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgement, IAS 8.11 requires management to consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the Framework.

Criticisms of IFRS are (1) that they are not being adopted in the US (see GAAP), (2) a number of criticisms from France and (3) that IAS 29 Financial Reporting in Hyperinflationary Economies had no positive effect at all during 6 years in Zimbabwe’s hyperinflationary economy. The IASB offered responses to the first two criticisms, but
has offered no response to the last criticism while IAS 29 is currently (March 2014) being implemented in its original ineffective form in Venezuela and Belarus.

Globalization of financial markets has meant an increased focus on international standards in accounting and has intensified efforts towards a single set of high quality, globally acceptable set of accounting standards. Financial statements prepared in different countries according to different set of rules, mean numerous national sets of standards, each with its own set of interpretation about a similar transaction, making it difficult to compare, analyse and interpret financial statements across nations.

A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. Needless to mention, internationally accepted accounting standards play a major role in this entire process.

It is in this context that the role of an independent, global standard-setting body such as the International Accounting Standards Board (IASB) is of critical importance. The principal objectives of the IASB are:

- To develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;
- To promote the use and rigorous application of those standards;
- To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and
- To bring about convergence of national accounting standards and IFRSs to high quality solutions.

Converging to global accounting standards i.e. IFRS facilitates comparability between enterprises operating in different jurisdictions. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets. Convergence with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital. It is also burdensome and costly
for enterprises operating across several countries to comply with a multitude of national accounting standards and convert them to a single standard for group reporting purposes. Convergence would thus help reduce both the cost of capital and cost of compliance for industry.

In pursuit of its objectives, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards. Progress toward this goal has been steady. All major economies have established time lines to converge with or adopt IFRSs in the near future and more than hundred countries require or permit the use of IFRSs.

Though Indian Accounting Standards are framed based on standards issued by the IASB, there are certain differences due to the legal and regulatory environment prevailing in the country, conceptual issues and the economic environment. In 2007 the ICAI decided that India should converge towards IFRS in a definite time frame in the wake of developments taking place in other major jurisdictions which had set up time schedules for migrating towards IFRS.

1.2 Importance of Accounting Standards

Accounting as a “Language of Business” communicates the financial results and health of an enterprise to various interested parties by means of periodical financial statements. Like any other language accounting should have its grammar and these sets of rules are Accounting Standards. The objective of Accounting Standards is three fold. Firstly, they help to standardize the diverse accounting policies and eliminate the incomparability of financial statements within an entity and across entities. Secondly, they facilitate the presentation of high quality, transparent and comparable information in financial statements. Thirdly, they reduce to accounting alternatives and thereby eliminate the element of subjectivity in financial statements.

India has a long tradition of framing accounting standards in the country. The Institute of Chartered Accountants of India (ICAI) set up under an act of Parliament had constituted an Accounting Standards Board (ASB) in April 1977 and the ASB has been framing the Indian Accounting Standards for the last three decades.
The importance of international accounting practice studies has grown over the past few years in order to meet economic agent demands and to facilitate international business practices. It is essential to understand that international accounting convergence is an important topic for capital market regulators, investors, markets, governments and all others who deal with financial information of public companies. This brings out the importance of accounting as being an essential fiscal tool for various economic agents. The merit of international accounting convergence lies in its ability to minimize negative effects resulting from diversity of accounting practices in different countries (Cordeiro et al. 2007). In such a scenario, the introduction of International Financial Reporting Standards (IFRS) for listed companies in many countries around the world is viewed as one of the most significant regulatory changes in accounting history (Daske et al. 2008).

IFRS issued by the International Accounting Standards Board (IASB) are now being recognized as the premier global reporting standards of accounting information world over. Today, more than hundred nations demand or permit the use of IFRS in their countries. Many countries have already announced their willingness to adopt IFRS in their countries. This is becoming the most popular and commonly accepted financial reporting model around the world, such as, European Union, Australia, New Zealand and Russia. The legal frameworks currently permit the use of IFRS in their countries. The importance of IFRS grew as they provide greater comparability of financial information for investors and also encourage them to invest across borders. Studies show that, IFRS adoption help in lowering the cost of capital for the companies and benefits more efficient allocation of capital.

Levitt (1998) in his paper on the importance of high quality accounting standards emphasized the need for harmonization of accounting standards to deliver credible information grounded in transparent financial reporting. The author lists out three key objectives for international standards to gain acceptance, as under:

1. The standards should include a core set of accounting pronouncements that constitute a comprehensive, generally accepted basis of accounting.
2. The standards must be of ‘high quality’-they must result is comparability and transparency and provide for full disclosure. Investors must be able to meaningfully analyse performance across time periods and among companies.

3. The standards must be rigorously interpreted and applied. If the accounting standards are to satisfy the objective of having similar transactions and events accounted for in similar ways-whenever and wherever they are encountered, auditors and regulators around the world must insist on rigorous interpretation and application of those standards. Otherwise, the comparability and transparency that is the objective of common standards will get eroded.

The Securities Exchange Commission (SEC) of United States of America (USA) has allowed usage of IFRS without reconciliation of United States Generally Accepted Accounting Principles (USGAAP) in the financial reports filed by foreign private issuers, thereby, giving foreign private issuers a choice between IFRS and USGAAP. SEC has proposed that the USA issuers should begin reporting under IFRS from 2014 with full conversion to occur by 2016 depending on size of the entity, this will bring almost the entire world on one single, uniform accounting platform, that is, IFRS.

With the economy growing and increasing integration among the global economies, Indian companies are also raising their capital globally due to diversification, cross-border mergers, investments or divestments. Under these circumstances, it is imperative for Indian corporate world to adopt IFRS for their financial reporting. The Core Group of Ministry of Corporate Affairs of India (MCA) has recommended convergence to IFRS in a phased manner from April 1, 2012. Till then, an Indian corporate having global aspirations should consider voluntary adoption of IFRS. The convergence with IFRS standards is set to change the landscape for financial reporting in India. Indian companies currently follow the local accounting standards known as Indian Generally Accepted Accounting Principles (IGAAP) issued by Institute of Chartered Accountants of India (ICAI) on behalf of MCA, Government of India.

The proponents of IFRS argue that accounting standards harmonization via IFRS enhances the quality and comparability of corporate financial disclosures, and accounting disclosure qualities have been the major focus of investors and also
regulators. The only positive and direct method of reducing agency cost and risk due to information asymmetry is through better accounting disclosure policies. The accounting quality pertains to better information disclosure quality. Various accounting standards and ‘GAAPs’ (Generally Accepted Accounting Practices) around the world lay down different set of norms for accounting disclosures hence the quality of accounting information also differ across nations. The basic feature of IFRS is that it is a principle-based standard rather than being a rule-based one.

Since IFRS is still in its infancy, researches across the globe are interested to study the importance and impact on the financials of the companies. It is argued that the use of IFRS enhances the comparability of financial statements, improves corporate transparency, increases quality of financial reporting and thus benefits investors. Daske et al. (2008) in their study on economic consequences due to mandatory IFRS reporting around the world, argue that, from an economic perspective, there are reasons to be skeptical about the above expectations because the economic consequences of mandating IFRS reporting are not obvious. Arguing on the same basis, this research aims to study the impact on economic activities of Indian companies by adopting IFRS. Even though there are several similarities between IGAAP and IFRS, still there exist differences that can have significant economic impacts. The research aims to understand these impacts due to IFRS adoption by Indian companies.

1.3 International Accounting Standard History

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting Standard Committee (IASC) at the 40th World Congress of Accountants in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosenfield was the
first secretary of the IASC. By the beginning of the 21st century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies use IASs to report to domestic investors.

The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005. The Australian government and standard setter had put up an adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. It is argued that changes made in the US GAAP can be expected to influence the international environment (Tarca, 2004). Gannon & Ashwal (2004) argue that the convergence efforts of the FASB and the IASB already have changed U.S. GAAP and more effects are expected as the efforts to narrow the differences between the IFRS and US GAAP continue.

With the rampant rise of globalization, it is really difficult to disagree with Thomas L. Friedman, author of the world-renowned book, The World is Flat, who said around the year 2000 that we have entered a new stage of globalization, a whole new era that he referred to as Globalization 3.0. According to him, the size of the world is shrinking from small to tiny. Some people believe that this magical phenomenon of globalization has led to the emergence of a global village that we live in.

If we believe in the old adage, “Accounting is the language of business,” then business enterprises around the world should not be speaking in different languages to each other.
while exchanging and sharing financial results of their international business activities and also reporting the results of business and trade to their international stakeholders. One school of thought believes that since business enterprises around the world are so highly globalized now and need to refer to each other in a common language of business, there is real need for single, universal set of accounting standards that would unify the accounting world and, more importantly, solve the problem of diversity of accounting practices across borders.

Historically, countries around the world have had their own national accounting standards. However, with such a compulsion to be part of the globalization movement, wherein business across national boundaries are realizing that it is an astute business strategy to embrace the world as their workplace and marketplace, having different rules or standards of accounting for the purposes of reporting financial results would not help them at all; rather, it would serve as an impediment to the smooth flow of information. Businesses, therefore, have realized that they need to talk to each other in a common language.

IFRS are clearly emerging as a global financial reporting benchmark and most countries have already started using them as their benchmark standard for listed companies. With the recent issuance of IFRS for Small and Medium Enterprises, a stand-alone set of standards for private entities that do not have public accountability, the global reach of the IASB is further enhanced. However, if these international standards are not applied uniformly across the world, due to interpretational differences, then their effectiveness as a common medium of international financial reporting will be in question. If the different entities within the region apply them differently based on their interpretation of the standards, it would make global comparison of published financial statements of entities using IFRS difficult.

Debate still rages amongst accountants and auditors globally on many burning and contentious accounting issues that need a common stand based on proper interpretation of these standards. According to one school of thought, IFRS are emerging as the much-awaited answer to the ‘billion-dollar question’ on the minds of accountants, financial professionals, financial institutions, and regulators, that is, Which set of accounting standards would solve the conundrum of diversity in accounting practices worldwide
by qualifying as a single or a common set of standards for the world of accounting to follow and rely upon?

Undoubtedly, for years, USGAAP was leading this much-talked about international race to qualify as the most acceptable set of accounting standards worldwide. Due to several reasons, including the highly publicized corporate debacles such as Enron in the United States, the global preference of most countries has now been clearly in favour of IFRS as the most acceptable set of international accounting and financial reporting standards worldwide.

With the current acceptance of IFRS in more than hundred countries and with several more expected to adopt IFRS in the coming years, one can argue that IFRS could possibly qualify as an Esperanto of international accounting. However, there is a strong possibility of the USSEC’s accepting IFRS ultimately. Judging from the amazing change in attitude of the USSEC, which has already allowed use of IFRS by foreign issuers for filings on USA stock exchanges, one may expect—that is, if the SEC’s road map to convergence with IFRS goes through successfully without any glitches, that by 2014, the world of accounting may be rejoicing and celebrating under a strong common banner of a global set of accounting and financial reporting standards, namely the IFRS.

The history of IFRS can be traced back to 1973 when representatives of the professional accounting bodies from major developed economies—Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the US—reached an agreement to establish the International Accounting Standards Committee (IASC) with no statutory mandates given by political jurisdictions. In 1975, the IASC pronounced its first International Accounting Standard (IAS). Since then the IASC issued a total of 41 IAS until it was restructured into the International Accounting Standard Board (IASB) in 2001. The IASB has pronounced a total of eight International Financial Reporting Standards (IFRS) as on 2006.

A major task of the IASB is to cooperate with national accounting standard setting bodies to achieve harmonization in accounting standards around the world. Nowadays, the IAS and IFRS are widely accepted and have become one of the most prevalent accounting standards around the world. In 2002, the IASB and the Financial
Accounting Standards Board (FASB) embarked on a joint programme to make USGAAP and IFRS converge to the maximum possible extent (Schipper, 2005). Also, the IFRS has been widely adopted in the Asia-Pacific region. For example, Bangladesh requires companies listed on local stock exchanges to adopt IFRS. Some countries- Australia, Hong Kong and New Zealand-have changed their local standards into new standards that are virtually similar to IFRS. Other countries, for example, Singapore, India, Malaysia, Thailand, and others, have changed most parts of local standards that are equivalent to IFRS.

Economic activities such as investments, mergers and acquisitions, and diversifications are key activities of development, survival and sustainability. Companies are in competition at global level, hence the pertinent research is undertaken to study the impact of IFRS on such of the economic activities. Interestingly it is found that the financial risks have not improved and investments, mergers and acquisitions and diversification do not impact statistically on economic activities even though differences are seen in absolute numbers.

An important step towards accounting standards harmonization through IFRS was made in March 2002, when the European Parliament broadly endorsed the proposal that all European Union companies listed on organized stock exchanges (about 9,000 companies in total) should, from 2005 onwards at the latest, prepare and publish their consolidated accounts in accordance with IFRS. Implementation of IFRS practices in the European Union turned out to be a historic event. It was the most significant revolution concerning accounting standards and accounting practices ever (Cordeiro et al. 2007). The countries in European Union that required domestic listed firms to follow IFRS from 2005 were Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden and the United Kingdom.

International convergence of accounting standards is not a new idea. The concept of convergence first arose in the late 1950s in response to post World War II economic integration and related increases in cross-border capital flows.
Initial efforts focused on harmonization—reducing differences among the accounting principles used in major capital markets around the world. By the 1990s, the notion of harmonization was replaced by the concept of convergence—the development of a unified set of high-quality, international accounting standards that would be used in at least all major capital markets.

The International Accounting Standards Committee, formed in 1973, was the first international standards-setting body. It was reorganized in 2001 and became an independent international standard setter, the International Accounting Standards Board (IASB). Since then, the use of international standards has progressed. As of 2013, the European Union and more than 100 other countries either require or permit the use of international financial reporting standards (IFRSs) issued by the IASB or a local variant of them.

The FASB and the IASB have been working together since 2002 to improve and converge U.S. generally accepted accounting principles (GAAP) and IFRS. As of 2013, Japan and China were also working to converge their standards with IFRSs. The Securities and Exchange Commission (SEC) consistently has supported convergence of global accounting standards. However, the Commission has not yet decided whether to incorporate International Financial Reporting Standards (IFRS) into the U.S. financial reporting system. The Commission staff issued its final report on the issue in July 2012 without making a recommendation.

The following is a chronology of some of the key events in the evolution of the international convergence of accounting standards.

The 1960s - Calls for International Standards and Some Early Steps
The 1990s - The FASB Formalizes and Expands its International Activities
The 2000s - The Pace of Convergence Accelerates: Use of International Standards Grows Rapidly, the FASB and IASB Formally Collaborate, and the U.S. Explores Adopting International Accounting Standards

- THE 1960S—CALLS FOR INTERNATIONAL STANDARDS AND SOME EARLY STEPS
Interest in international accounting began to grow in the late 1950s and early 1960s due to post World War II economic integration and the related increase in cross-border capital flows.

- **1962—8TH INTERNATIONAL CONGRESS OF ACCOUNTANTS IS HELD—MANY SEE A NEED FOR INTERNATIONAL ACCOUNTING AND AUDITING STANDARDS**

  The American Institute of Certified Public Accountants (AICPA) hosted the 8th International Congress of Accountants. The discussion focused on the world economy in relation to accounting. Many participants urged that steps be undertaken to foster development of auditing, accounting, and reporting standards on an international basis.

- **1962—THE AICPA REACTIVATES ITS COMMITTEE ON INTERNATIONAL RELATIONS**

  Likely in reaction to the 8th International Congress of Accountants, the AICPA reactivated its Committee on International Relations. The goal of that Committee was to establish programs to improve the international cooperation among accountants and the exchange of information and ideas, with the idea those efforts might perhaps lead to eventual agreement on common standards. In 1964, the Committee completed a review of accounting standards internationally, published as Professional Accounting in 25 Countries (AICPA).

- **1966—ACCOUNTANTS INTERNATIONAL STUDY GROUP IS FORMED**

  The AICPA and its counterparts in the United Kingdom and Canada formed a group to study the differences among their standards. The group was active for about 10 years, producing studies of differences in 20 areas of accounting that also included conclusions on best practices.

- **1967—THE FIRST TEXTBOOK ON INTERNATIONAL ACCOUNTING IS PUBLISHED**

  International Accounting (New York: Macmillan, 1967) was the first textbook on international accounting. It was written by Professor Gerhard G. Mueller, who later became an FASB member (1996).

The 1970s saw the creation of the first international accounting standard-setting body and a gradual increase in voluntary cooperation among the FASB, the IASC, and other national standard setters.

1973—THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE (IASC) IS ESTABLISHED

The IASC (the predecessor body to the IASB) was established by the AICPA and its counterparts in 8 other countries. Its mission was to formulate and publish, in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance. Until 2002, only a few countries decided to use IASC standards. Many of those were countries that lacked their own standard-setting infrastructure.

1979—FASB FORMS FIRST TASK FORCE THAT INCLUDES REPRESENTATIVES FROM INTERNATIONAL STANDARD SETTERS

When the FASB took on a project to revise its accounting standard on foreign currency, it decided to include representatives of the UK Accounting Standards Board, the Accounting Standards Board of Canada, and the IASC on its Task Force. This was one of the FASB’s first efforts to formally collaborate internationally when developing a standard.

1987—THE IASC EMBARKS ON ITS COMPARABILITY AND IMPROVEMENTS PROJECT

By 1987, the IASC had issued 25 standards covering various issues. Because those standards were essentially distillations of existing accounting practices used around the world, they often allowed alternative treatments for the same transactions. The IASB decided to undertake a comparability and improvements project to reduce the number of allowable alternatives and make the standards more prescriptive rather than descriptive.
• 1988—THE FASB BECOMES A MEMBER OF THE IASC CONSULTATIVE GROUP AND A NON-VOTING OBSERVER AT IASB MEETINGS

The AICPA, as the IASC member, coordinated U.S. involvement in IASC activities. The FASB/IASB relationship was an informal one. That changed in 1988 when the FASB became a member of the IASC Consultative Group—a body established to provide the IASC with input on technical and others issues—and an Observer to the IASC, which meant that a FASB representative was permitted to attend and participate in IASC meetings.

• 1988—THE FASB EXPRESSES SUPPORT FOR INTERNATIONALIZATION OF STANDARDS

By the late 1980s, the need for a common body of international standards to facilitate cross-border capital flows had generated a high level of worldwide interest. The FASB decided that the need for international standards was strong enough to warrant more focused activity on its part. FASB Chairman Dennis Beresford expressed his support for “superior international standards” that would gradually replace national standards and identified new initiatives to get the FASB more directly involved in the drive to improve international standards (Status Report No. 195, June 27, 1988).

• THE 1990S—THE FASB FORMALIZES AND EXPANDS ITS INTERNATIONAL ACTIVITIES

During the 1990s, the FASB developed its first strategic plan for international activities and significantly expanded the scope of its collaboration with other standard setters. The U.S. Congress and the SEC also became involved in the issues of international accounting standards. At the end of the decade, the FASB directly participated in the working party that led efforts to restructure the IASC into the IASB.

• 1991—THE FASB ISSUES ITS FIRST STRATEGIC PLAN FOR INTERNATIONAL ACTIVITIES

The Board’s first formal plan for international activities described the ultimate goal of internationalization as a body of superior international accounting standards that all countries accepted as GAAP for external financial reports. Since the Board had
concluded that the ultimate goal was beyond immediate reach, it established a near-
term strategic goal of making financial statements more useful by increasing the
international comparability of accounting standards while improving their quality.

The plan outlined specific efforts toward achieving that goal. Those included (a) actively considering the existing requirements of international standards in the Board’s projects, (b) taking on joint projects with other standard setters, (c) actively participating in the IASC’s processes, (d) strengthening international relationships, and (e) expanding international communications.

- 1993—THE FASB AND THE ACCOUNTING STANDARDS BOARD OF CANADA UNDERTAKE JOINT PROJECT ON SEGMENT REPORTING
  The FASB and its counterpart in Canada undertook a joint project that resulted in both Boards issuing improved standards on segment reporting that were substantially the same.

- 1993—THE FASB AND OTHER STANDARD SETTERS FORM THE G4
  In the interest of working collaboratively, the FASB and its counterparts in Canada, the United Kingdom, and Australia formed a group to research and propose solutions to common accounting and reporting issues. Originally referred to as the “G4,” the group published 11 research reports on various issues such as reporting financial performance and accounting for leases. The Group was later renamed the “G4+1” when New Zealand became a member. Representatives of the IASB participated as an observer.

- 1994—THE FASB AND IASC UNDERTAKE THEIR FIRST COLLABORATIVE STANDARD-SETTING EFFORT
  The FASB and IASC undertook concurrent projects to improve their earnings per share standards with a specific objective of eliminating the differences between them.

- 1995—THE FASB UPDATES ITS STRATEGIC PLAN AND UNDERTAKES A PROJECT TO COMPARE U.S. GAAP AND IASC STANDARDS
In 1995, the FASB updated its strategic plan for international activities, essentially affirming the strategic goals and action plans set forth in 1991.

Consistent with that plan, the FASB staff undertook a broad project to compare U.S. GAAP and existing IASC standards. That effort resulted in the FASB’s publication of The IASC-U.S. Comparison Project: A report on the Similarities and Differences between IASC Standards and U.S. GAAP (1996). In 1999, the FASB published an update of that staff research study.

- **1995—THE IASC UNDERTAKES A CORE STANDARD PROGRAM; THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS AGREES TO REVIEW THOSE STANDARDS**

  The IASC and the International Organization of Securities Commissions (IOSCO, of which the SEC is a member) agreed on what constitutes a comprehensive set of core standards. The IASC undertook a project to complete those core standards by 1999. The IOSCO agreed that if it found those core standards acceptable, it would recommend endorsement of IASC standards for cross-border capital and listing purposes in all capital markets.

- **1996—THE U.S. CONGRESS EXPRESSES SUPPORT FOR HIGH-QUALITY INTERNATIONAL STANDARDS**

  In October 1996, the National Securities Markets Improvement Act of 1996 became law. Section 509, which dealt with promoting the global preeminence of American Securities Markets, stated that, among other things, “establishment of a high-quality comprehensive set of generally accepted international accounting standards in cross-border securities offerings would greatly facilitate international financing activities and, most significantly, would enhance the ability of foreign corporations to access and list in United States markets.” The Act required the SEC to report to Congress within a year on the progress toward developing international standards (the SEC published that report in October 1997).
• 1996—THE SEC ANNOUNCES ITS INTENT TO CONSIDER THE ACCEPTABILITY OF USE OF IASC STANDARDS BY FOREIGN PRIVATE ISSUERS

The SEC issued a press release stating its intent to consider the acceptability of IASC standards as the basis for the financial reports of foreign private issuers. To be accepted by the SEC, the IASC standards would have to be (1) sufficiently comprehensive, (2) high-quality, and (3) rigorously interpreted and applied.

• 1998—THE ASIAN FINANCIAL CRISIS PROMPTS MORE CALLS FOR INTERNATIONAL STANDARDS

Following the Asian financial crisis, the World Bank, International Monetary Fund, G7 finance ministers, and others called for rapid completion and global adoption of high-quality international accounting standards.

• 1999—THE FASB PUBLISHES ITS VISION FOR THE FUTURE OF INTERNATIONAL ACCOUNTING STANDARD SETTING

In 1999, the FASB published International Accounting Standard Setting: A Vision for the Future, describing its vision of the ideal international financial reporting system. The report said that such a system would be characterized by a single set of high-quality accounting standards established by a single, independent, international standard setter. The report also identified the characteristics of high-quality standards and of a high-quality global standard setter. (Available from the FASB Store)


Beginning in the 1990s, efforts to harmonize accounting standards internationally evolved into a broad convergence effort. In 2001, the IASC was restructured into the IASB; and by 2009, the European Union and over 100 other countries had adopted international standards or a local variant of them. Several other countries, including Canada, Korea, India and Brazil, had committed to adopt international standards by 2011. In 2002, the FASB and IASB embarked on a partnership to improve and converge
U.S. GAAP and international standards. Japan and China have also forged convergence plans with the IASB. In late 2008, the SEC issued a proposed Roadmap that, if adopted, could result in the mandatory use of international standards by U.S. SEC registrants as early as 2014.

- **2000—THE SEC ISSUES A CONCEPT RELEASE ON INTERNATIONAL ACCOUNTING STANDARDS**
The Concept Release, International Accounting Standards, sought broad input on a framework for the convergence of accounting standards and sought input on the conditions under which the SEC should accept the financial statements of foreign private issuers prepared using IASC standards and eliminate the requirement to reconcile those financial statements to U.S. GAAP (Concept Release).

- **2001—THE IASC IS RECONSTITUTED INTO THE IASB**
In response to calls for improvements in the governance, funding, and independence of the IASC, it was reconstituted into the IASB. The IASB’s structure and operations resulted from the efforts of a strategy working party formed in 1998. The governance, oversight, and standard-setting processes of the IASB are similar to those of the FASB.

The IASB was established as an independent standard-setting Board that is appointed and overseen by a group of Trustees of the IASC Foundation. At inception, it had 14 Board members from 9 countries, including the U.S., with a variety of functional backgrounds (IASB).

- **2002—THE EUROPEAN UNION DECIDES TO USE INTERNATIONAL FINANCIAL REPORTING STANDARDS**
The European Union (EU) adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, becoming the first major capital market to require IFRS. The EU subsequently decided to “carve-out” a portion of the international standard for financial instruments, producing a European version of IFRS.
• 2002—THE NORWALK AGREEMENT: THE FASB AND IASB AGREE TO COLLABORATE
In September 2002, the FASB and the IASB met jointly and agreed to work together to improve and converge U.S. GAAP and IFRS. That partnership is described in “The Norwalk Agreement,” issued after that joint meeting. The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting. It also established broad tactics to achieve their goal: develop standards jointly, eliminate narrow differences whenever possible, and, once converged, stay converged (Norwalk Agreement).

• 2003—THE SEC REAFFIRMS THE FASB AS THE U.S. PRIVATE SECTOR STANDARD SETTER
Pursuant to the Sarbanes-Oxley Act of 2002, the SEC issued a Policy Statement that reaffirmed the FASB as the private-sector accounting standard setter for the U.S. That policy statement also said that the SEC expects the FASB to consider, in adopting accounting principles, the extent to which international convergence of high-quality standards is necessary or appropriate in the public interest and for the protection of investors (Policy Statement).

• 2005—SEC STAFF SPEECH PROVIDES A PROPOSED ROADMAP TO THE ELIMINATION OF THE RECONCILIATION REQUIREMENT
In April 2005, SEC Chief Accountant Don Nicholiasen provided his views on a proposed “Roadmap” to eliminate by 2009 the requirement that foreign private issuers filing financial statements prepared under IFRSs reconcile reported net income and equity to U.S. GAAP (the 20-F reconciliation). The proposed Roadmap identified several milestones that, if achieved, would support eliminating the reconciliation. One of those milestones was the continued progress of the IASB/FASB convergence program (Nicholiasen’s Speech).

• 2006—THE FASB AND IASB ISSUE A MEMORANDUM OF UNDERSTANDING
In February 2006, the FASB and the IASB issued a Memorandum of Understanding (MoU) that described the progress they hoped to achieve toward convergence by 2008.
In the MoU, the two Boards reaffirmed their shared objective of developing high-quality, common accounting standards. The MoU elaborated on the Norwalk Agreement, setting forth the following guidelines in working toward convergence:

Convergence of accounting standards can best be achieved by developing high-quality, common standards over time.

Instead of trying to eliminate differences between standards that are in need of significant improvement, the Boards should develop a new common standard that improves the quality of financial information. Serving the needs of investors means that the Boards should seek to converge by replacing weaker standards with stronger standards (MoU).

- 2007—THE SEC PROPOSES AND SUBSEQUENTLY ELIMINATES THE RECONCILIATION REQUIREMENT

In July 2007, the SEC issued a proposing release, Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP, to eliminate the reconciliation requirement for foreign registrants that use IFRS as issued by the IASB (Proposed Rule). After considering the input received, the SEC issued a final rule eliminating that requirement in December 2007 (Final Rule).

- 2007—THE SEC ISSUES A CONCEPT RELEASE ON POSSIBLE OPTIONAL USE OF IFRS BY U.S. ISSUERS


- 2007—THE FASB RESPONDS TO THE SEC’S CONCEPT RELEASE ON POSSIBLE OPTIONAL USE OF IFRS BY U.S. ISSUERS

On November 7, 2007, the Financial Accounting Foundation (FAF) and the FASB responded to the SEC’s request for comments on its Concept Release (see above).
While reaffirming the FASB’s support for a single set of high-quality common standards developed by an independent, international standard setter, the letter argued against permitting the optional use of IFRS in the absence of the planned adoption by all SEC registrants, citing the complexity that would result from such a dual reporting system. (Comment Letter)

- **2007—THE FASB AND IASB ISSUE CONVERGED STANDARDS ON BUSINESS COMBINATIONS**

In late 2007, the FASB and the IASB completed their first major joint project and issued substantially converged standards on business combinations (News Release).

- **2008—THE FASB AND IASB UPDATE THEIR MEMORANDUM OF UNDERSTANDING**

In September 2008, the FASB and the IASB issued an update to the 2006 MoU to report the progress they have made since 2006 and to establish their convergence goals through 2011 (Update to 2006 Memorandum of Understanding).

- **2008—THE SEC ISSUES A PROPOSED ROADMAP TO ADOPTION OF IFRS IN THE U.S. AND A PROPOSED RULE ON OPTIONAL EARLY USE OF IFRS**

In November 2008, the SEC published for public comment a proposed Roadmap to the possible use of IFRS by U.S. issuers beginning in 2014. Under the proposed Roadmap, the Commission would decide by 2011 whether adoption of IFRS would be in the public interest and would benefit investors. The proposed Roadmap identified several milestones that, if achieved, could lead to the use of IFRS by U.S. issuers. The SEC also proposed that U.S. issuers meeting certain criteria be given the option of filing financial statements prepared using IFRS as issued by the IASB as early as years ending after December 15, 2009 (Proposed Roadmap).

- **2009: FAF AND FASB ISSUE THEIR COMMENT LETTER ON THE SEC’S PROPOSED ROADMAP**

On March 11, 2009, the FAF and FASB responded to the SEC’s request for comments on its proposed Roadmap. The letter reiterated the FASB’s strong support for the goal
of a single set of high-quality international standards and recommended additional study to better evaluate the strengths, weaknesses, costs, and benefits of possible approaches the U.S. could take in moving toward that goal (Comment Letter).

Most recently, in a joint meeting held in October 2009, the FASB and IASB reaffirmed their commitment to convergence, agreed to intensify their efforts to complete the major joint projects described in the MoU, and committed to making quarterly progress reports on these major projects available on their websites. As a further affirmation of that commitment, the Boards issued a joint statement describing their plans and milestone targets for achieving the goal of completing major MoU projects by mid-2011.

- 2010: SEC ISSUES A STATEMENT IN SUPPORT OF CONVERGENCE AND GLOBAL ACCOUNTING STANDARDS

In February 2010, the SEC issued a statement (Statement) that lays out the SEC’s current position regarding global accounting standards. That Statement reflects the Commission’s consideration of the input it received on its November 2008 proposed rule, Roadmap for the Potential Use of Financial Statements Prepared In Accordance With International Financial Reporting Standards (IFRS) by U.S. Issuers. The Statement makes clear that the SEC continues to believe that a single set of high-quality, globally accepted accounting standards would benefit U.S. investors. The Statement also:

- Continues to encourage the convergence of U.S. GAAP and IFRS
- Outlines factors that are of particular importance to the Commission as it continues to evaluate IFRS through 2011
- Directs the staff of the SEC to develop and execute a work plan (Work Plan) that transparently lays out specific areas and factors for the staff to consider before potentially transitioning our current financial reporting system for U.S. issuers to a system incorporating IFRS.

In February 2010, the FASB and the Financial Accounting Foundation issued a statement regarding the SEC’s Statement and Work Plan.
• **2010: FASB REPORTS PERIODICALLY ON THE STATUS OF THEIR PROJECT TO IMPROVE AND CONVERGE U.S. GAAP AND IFRS**

In April 2010, the FASB and IASB published a first-quarter progress report on their work to improve and achieve convergence of U.S. GAAP and IFRS.

In June 2010, the FASB and IASB agreed to modify their joint work plan to (a) prioritize the major projects in the MoU to permit a sharper focus on issues and projects for which the need for improvement is most urgent and (b) phase the publication of exposure drafts and related consultations to enable the broad-based and effective stakeholder participation that is critically important to the quality of the standards. On June 24, 2010, the FASB and IASB issued a quarterly joint progress report that describes that modified work plan.

In November 2010, the FASB and IASB issued a quarterly progress report on the status of their work to complete the MoU. That progress report describes the Boards’ affirmation of the priorities laid out in their June 2010 report described above. It also describes how the Boards modified aspects of their plans for other projects in order to put them in the best position to complete the priority projects by the June 2011 target date.

• **2011: THE FAF AND FASB PROVIDE FEEDBACK TO THE IFRS FOUNDATION ON ITS STRATEGY REVIEW**

In February 2011, the FAF and the FASB issued a brief letter to the IFRS Foundation Trustees providing their views on several key issues with respect to mission, governance, and process raised in the Strategy Review the IFRS Foundation published for public comment on November 5, 2010.

• **2011: REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS)**

In March, the FASB hosted the semi-annual meeting of national standards setters in New York City. Over 60 individuals representing more than 20 different national standards setting and other organizations met to discuss a variety of matters of mutual interest, such as progress on technical projects of the IASB and joint projects between
the FASB and IASB, the IASB’s post-implementation review process, and issues arising in the application of international financial reporting standards. Read the full meeting report.

- 2011: PROGRESS REPORT ON IASB-FASB CONVERGENCE WORK
  In April, the FASB and IASB reported on their progress toward completion of the convergence work program. The Boards were giving priority to three remaining projects on their MoU (financial instruments, revenue recognition, and leasing) as well as their joint project on insurance. The Boards also agreed to extend the timetable for those priority projects beyond June 2011 to permit further work and consultation with stakeholders in a manner consistent with an open and inclusive due process. The Boards issued a progress report that provides details on the timeline for completion of the MoU projects.

- 2012: SEC STAFF “FINAL REPORT” ON WORK PLAN
  In July 2012, the SEC staff issued its final staff report on the “Work Plan for Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers.” The report was the final phase of a work plan, initiated in February 2010, to consider specific issues relevant to the Commission’s determination as to where, when and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating IFRS. The 2012 staff report summarized the staff’s findings regarding key issues surrounding the potential incorporation of IFRS into U.S. financial reporting, but did not make any recommendation to the Commission. In the report, the SEC staff examined a number of unresolved issues relating to the potential incorporation of IFRS into the U.S. financial reporting system. These issues include, among others, the diversity in how accounting standards, including IFRS, are interpreted, applied and enforced in various jurisdictions around the world; the potential cost to U.S issuers of adopting or incorporating IFRS; investor education; and governance.

- 2013: IFRS FOUNDATION ESTABLISHES ACCOUNTING STANDARDS ADVISORY FORUM
The International Financial Reporting Standards Foundation in early 2013 established the Accounting Standards Advisory Forum (ASAF) to improve cooperation among worldwide standard setters and advise the IASB as it develops International Financial Reporting Standards (IFRS). The FASB was selected as one of the ASAF’s twelve members. The FASB’s membership on the ASAF is an opportunity to represent U.S. interests in the IASB’s standard-setting process and to continue the process of improving and converging U.S. Generally Accepted Accounting Principles and IFRS. The FASB was nominated for membership on the ASAF by the FAF Board of Trustees, which oversees both the FASB and its sister standard-setting board, the Governmental Accounting Standards Board (GASB).

1.4 Advantages and Disadvantages of IFRS

1.4.1 Advantages of IFRS

It is advocated that adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and assessoriy investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfil the disclosure requirement for stock exchanges around the world (Armstrong, Barth, Jagolizer & Riedl, 2007., Covrig, Defond & Hung 2007, Daske et al 2008). Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the world. (Choi, et al, 1999; Alfredson et al,2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect - whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or whether investors become experts in foreign accounting,
which depends on how costly it is to develop the expertise. Therefore, ex ante net market effect of convergence is uncertain.

Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence. They find (1) an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption (2) an incrementally negative reaction for firms domiciled in code law countries, consistent with investors’ concerns over enforcement of IFRS in those countries and (3) a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. Gordon (2008) listed the benefits from adaptation of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital

FOCUS ON INVESTORS

One of the significant advantages of IFRS compared to GAAP is its focus on investors in the following ways:

1. The first factor is that IFRS promise more accurate, timely and comprehensive financial statement information that is relevant to the national standards. And the information provided by financial statements prepared under IFRS tends to be more understandable for investors as they can understand the financial statement without the necessity of other sources which makes investors more informed

2. This also helps new or small investors by making the reporting standards simpler and better quality as it puts small and new investors in the same position with other professional investors as it was impossible under the previous reporting standards. This also helps to reduce the risk for new or small investors
while trading as professional investors can not take advantage due to the simple to understand nature of financial statements.

3. Due to harmonization and standardization of reporting standards under IFRS, the investors do not need to pay for processing and adjusting the financial statements to be able to understand them, thus eliminating the fees of analysts. Therefore, IFRS reduces the cost for investors.

4. Reducing international differences in reporting standards by applying IFRS, in a sense removes a cross border takeovers and acquisitions by investors.

Based on information mentioned above, it can be assumed that because higher information quality reduces both the risk to investors from buying and owning shares and the risk to less informed investors due to wrong selection due to lack of understanding, it should lead to reduction in firms cost of equity capital.

This on one hand should increase the share prices, and on the other should make new investments by firms more attractive. Moreover, the following points mark additional advantages of IFRS compared to GAAP

**LOSS RECOGNITION TIMELINESS**

Recognising the loss immediately is one of the key features of IFRS as it is not only the benefit for the investors, but also for the lender and other stakeholders within the company.

The increased transparency and loss recognition of IFRS, usually increases the efficiency of contracting between companies and their management, which also enhances the corporate governance. With increased transparency as promised by IFRS, the lenders also benefit from IFRS as it makes it compulsory for the companies recognize the loss immediately.

This timelier loss recognition of IFRS, triggers the issues as when the companies face economic losses, it will be known to the stakeholders of other potential investors. Timelier loss recognition also enables the company review its book values of assets and liabilities, earnings, equity.
The convergence to IFRS has improved the comparability of financial statements in the EU. This has been achieved through having the same reporting standard under a single market, the EU.

As all companies, preparing their consolidated financial statements, have been reporting undergone reporting standard have improved the comparability not only for investors, but also all stakeholders who use the financial statements.

Another reason that has contributed to the overall success of the IFRS adoption has been due to the transition period, as more than 8000 listed companies in the EU adopted it in the same year.

However, there has been an argument about the lack of efficiency and comparability of IFRS. The following is the arguments against the lack of comparability and consistency of IFRS:

Due to the strong national identity of IFRS reports, as the main effects of IFRS has been on how companies recognize, measure and disclose items. And the companies have adopted an approach which minimized the changes from previous national standards which reduced the ability to compare the financial statements across an industry.

The extensive judgement has been required under IFRS due to the absence of industry related guidance which created gaps and inconsistencies in the IFRS reporting standards. And this is another reason for the lack of comparability and inconsistency

And companies are not confident that the IFRS is adequate for the purposes of communicating their performance to the financial markets, as GAAP reporting standards tended to be more detailed which could provide more detailed information

Another factor that shows the lack of comparability and inconsistency is because the IFRS reporting standards are more complicated than the national accounting standards
(UK), therefore, it may become a process of following the complex mechanism but does not necessarily promote the performance of the companies.

**STANDARDIZATION OF ACCOUNTING AND FINANCIAL REPORTING**

The most mentioned factor about the advantages of IFRS has been the standardization of financial reporting which eventually improves the comparability of financial statements in major financial markets. This also removes the trade barrier, as this was one of the key factors as why the EU has been trying to adopt single reporting standards.

**IMPROVED CONSISTENCY AND TRANSPARENCY OF FINANCIAL REPORTING**

This factor can also be mentioned as one of the crucial advantages of converting to IFRS as it makes the EU member countries to be consistent not only on macroeconomic aspects, but also on financial reporting which improves relationship between investors and companies among member countries.

**BETTER ACCESS TO FOREIGN CAPITAL MARKETS AND INVESTMENTS**

As thousands of companies in Europe and other joining countries across the world has already created a huge base for IFRS adoption, it also improves the companies to access to financial markets by having the financial statements prepared under one reporting standards.

One of the main reasons for converting from previously used GAAP to new IFRS was for improving comparability in international financial markets, thus increasing the focus on investors. And this has been mainly achieved and still going to be achieved as more and more countries around the world have been converting to IFRS from their national reporting standards as mentioned during the interview.

**Improved Comparability of Financial Information with Global Competitors**
The comparability of financial statements under IFRS will be improved only if the adoption of IFRS expands including more countries. However, the comparability of financial statements get worse if the same country uses two different sets of reporting standards, thus IFRS and national reporting standards.

Due to the gap between the market and book values, the local stock market gets adversely affected when the IFRS is applied in line with other national reporting standards.

Moreover, there has been no significant achievement in terms of usefulness and improved comparability of financial statements in the short term which is mainly due to the fact that the IFRS reporting standards is fairly new as a reporting standard and the harmonization has not fully been achieved yet by all EU member countries. And it is hoped that the usefulness and improved comparability of IFRS may be achieved in the medium-long term.

In order to assure the comparability of financial statements, all companies should follow the same rules by adopting IFRS. Private and small and medium sized, unconsolidated statements can be prepared under IFRS which further improves the comparability and consistency of financial statements. And eventually, the adoption of IFRS by all countries around the world gives even more increased usefulness and comparability of financial statements.

**RELEVANCE**

And the relevance of the IFRS can be mentioned as a substantial advantage due to the following reasons:

- The new IFRS reflects on economic substance more than legal form. This helps the companies and other stakeholders to have true and fair view of the companies’ transactions.
- The way IFRS reflects to gains and losses in a timely manner puts IFRS in a more reliable and credible position than the GAAP in terms of reporting standards
• The balance sheets prepared under IFRS tends to be more useful due to its layout and the consistency, and the level of complexity compared to GAAP that tended to be more detailed
• The manipulation by managers by creating hidden reserves is not allowed anymore under new IFRS, so less manipulative and more shareholders oriented

Moreover, other benefits as mentioned during the interview are cost saving with new IFRS especially for multinational corporations. However, before companies can start enjoying the cost savings, they have to spend considerable amount of money as a transitional costs.

1.4.2 Disadvantages of IFRS

• The most noteworthy disadvantage of IFRS relate to the costs related to the application by multinational companies which comprise of changing the internal systems to make it compatible with the new reporting standards, training costs and etc.
• The issue of regulating IFRS in all countries, as it will not be possible due to various reasons beyond IASB or IASC control as they cannot enforce the application of IFRS by all countries of the world.
• Issues such as extraordinary loss/gain which are not allowed in the new IFRS still remain an issue.
• Another major disadvantage of converting to IFRS makes the IASB the monopolist in terms of setting the standards. And this will be strengthened if IFRS is adopted by the US companies. And if there is competition, such IFRS vs. GAAP, there is more chance of having reliable and useful information that will be produced during the course of competition.
• The total cost of transition costs for the US companies will be over $8 billion and one off transition costs for small and medium sized companies will be in average $420,000, which is quite a huge amount of money to absorb by companies.
• And even though the companies and countries are incurring huge transitional costs, the benefits of IFRS cannot be seen until later point due to the fact that it takes some years for the harmonization and to have sufficient years of financial statements to be prepared under IFRS to improve consistency.

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They key problem in conversion to IFRS that has stressed with high importance is the use of fair value as the primary basis of asset and liability measurements. And the interviewers think that this principle will bring increased volatility as the assets are reported.

And another disadvantage of IFRS is that IFRS is quite complex and costly, and if the adoption of IFRS needed or required by small and medium sized businesses, it will be a big disadvantage for SMEs as they will be hit by the large transition costs and the level of complexity of IFRS may not be absorbed by SMEs.

And moreover, one of the aims of European Union from applying and standardizing the reporting standards was to increase the international comparability of financial statements; however, only over 7000 listed companied adopted IFRS from 2005, there were still more than 7000,000 SMEs in EU, which preferred their national version of reporting standards. This contradicts the aim of the EU and partly of IFRS in implementing single international reporting standards.

1.5 IFRS Worldwide Acceptance

In the last few years, the popularity of IFRS has grown tremendously. The international accounting standard-setting process has been able to claim a number of successes in achieving greater recognition and use of IFRS. A major breakthrough came in 2002 when the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements.

The legislation came into effect in 2005 and applies to more than 8,000 companies in 30 countries, including countries such as France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS has replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe, which is considered by many as a major milestone in the history of international accounting.

Outside Europe, many other countries also are moving towards IFRS. By 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America. In
addition, countries such as Australia, Honk Kong, New Zealand, Philippines, and Singapore had adopted national accounting standards that mirrored IFRS.

Today, IFRS are used in more than 100 countries. A significant number of Global Fortune 500 companies already use IFRS and this number is expected to increase in 2012 with further convergence or adoption to IFRS by major global players, most notably, Brazil, Canada, and India, and substantial convergence of local GAAPs in China and Japan to IFRS.

The popularity and acceptance of IFRS is not only restricted to business entities, but has also caught the awareness of academicians and researchers who, on regular basis, have been trying to understand the benefits of IFRS convergence or adoption by the various users. The growth in research in IFRS has witnessed a spurt post 2005 only after EU mandated IFRS usage through legislation. Though majority of research and relevant studies have concentrated in developed economies, largely EU countries, limited studies are found in developing countries due to delayed IFRS convergence or adoption. The literature on IFRS is recently developed and would keep expanding as and when IFRS acceptance grows across the globe.

1.6 IFRS Issues and Challenges

In respect of banks and NBFCs, in view of the special issues involved (finalisation of IFRS 9 expected in the middle of 2011), a separate road map was prepared in March 2010 for convergence with IFRS for the banking industry and NBFCs. The convergence process would be from period beginning April 1, 2013, with a phased approach for urban banks and NBFCs. This gives the banking system some time to adopt to the standards in a smooth and non-disruptive manner.

It has to be noted, however, that banks will be significantly affected by the IAS 39 replacement project and a number of other accounting developments including those relating to financial instruments, fair value measurement, financial statement presentation and consolidation. Some of the major changes pertain to certain critical areas such as classification and measurement of financial assets, classification and valuation of liabilities, impairment provisions and fair value measurement. One area of
concern has been the drawback of the incurred loss model of IAS 39 and the need to introduce more forward looking provisioning.

The IFRS convergence process will involve significant challenges for the banking system in general. Banks would need to upgrade their infrastructure, including IT and human resources, to face the complexities and challenges of IFRS. Some major technical issues arising for Indian banks during the convergence process would be differences between the IFRS and current regulatory guidelines on classification and measurement of financial assets, focus in the standard on the business model followed by banks and the challenges for management in this area, application of fair values for transactions were not much guidance is available in India in terms of market practices or benchmarks, and expected changes in impairment rules.

Let me now draw your attention towards certain key non-accounting issues which are equally crucial in the IFRS convergence process. The desired results will not come if non-accounting issues are not addressed along with the accounting issues. The first challenge is integrity of data and information. Most Scheduled Commercial Banks in India have either already migrated or are in the process of migrating to Core Banking Solutions (CBS). In this context, data integrity and data validity would be of critical importance especially due to data intensive requirements of IFRS converged standards. The present system of compilation and submission of data which forms the backbone of preparation of financial statements compromises on data quality. The scope of erroneous data entry of even malicious wrong reporting cannot be ruled out. Lack of adequate data results in absence of information on “returns” at activity level and segmental reporting in a granular manner. Incorporating suitable capability in CBS for enabling automated data flow/generation of MIS would be a facilitator in accurate reporting and financial statements prepared from such data as the basis would reflect a “true and fair” picture of the financial position of the entity. RBI has set up a group to work on this area. Preparatory work in this regard would enable us to counter a basic challenge in our effort towards IFRS convergence.

Secondly, we come to the issue of “Ethical Standards” which are of critical importance in the field of accountancy where users rely heavily on the statements made by accounting professionals. Maintaining ethical standards and values is a key part of
financial reporting. Without a strong code of ethics and adherence to those ethics, financial reporting would fail to inspire and ensure public and investor confidence in entities. Thus, along with high levels of technical competence, accounting professionals also need to have unquestionable and impeccable professional integrity. Therefore, professional bodies have codes of ethics for their members and disciplinary procedures for those who infringe upon these rules. However, one of the causes of the recent financial crisis was also the poor adherence to ethics by some accounting professionals who exploited “form over substance”, rather than “substance over form” to hide weaknesses in their financial position and misstate profits.

Thirdly, adaptability and compatibility of existing IT solutions used by banks to the new requirements imposed by IFRS convergence is also a major challenge. Software which has been written keeping in mind Indian GAAP requirements may have to be modified substantially to incorporate features of IFRS requirements. Similarly, compatibility between software and hardware would have to be addressed to take care of the new requirement.

RBI has always believed in the fact that accounting standards and the integrity of its implementation has a very important role to play in the financial system as reflected in the Report of the Committee on Financial Sector Assessment, wherein the importance of the convergence process of Indian accounting standards with IFRSs has been emphasized. RBI has set up a Working Group to address Implementation Issues in IFRS for non-disruptive migration of the Indian banking system with members from ICAI, IBA and the regulatory and supervisory departments of RBI.

The principal impeding factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000). The historical differences in accounting thought, context, ethos and practice in the broad divides: Anglo-Saxon, Continental
Europe and Southern American (Nobes, 1983., Ball, 1995) make harmonization and moving from one tradition to another difficulty.

Although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets (Ball 2006, Choi & Meek 2005), Armstrong et al., (2007) and Soderstrom & Sun (2007) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. The perception of IFRS quality by users is critical to IFRS adoption. For instance, in a recent survey by McEnroe & Sullivan (2011), individual investors felt satisfied with the current US accounting model and do not desire movement towards IFRS adoption. Similarly, Winney et al (2010) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

A large pool of researches, mainly dwelling on compliance, implementation issues, market-based, the consequences of the implementation, have been conducted on IFRS adoption using data from countries where IFRS has been adopted or started implementation. Areas investigated include relevance of accounting data, accounting reporting quality in pre and post IFRS adoption, impact on cost of capital and market liquidity, market reactions to IFRS adoption, impact on group accounting and the net profit and equity of companies, comparison between local and IASB/IFRS (at least Deloitte and Deloitte has conducted extensive, comparative studies of many countries), economic consequences and capital market outcomes of voluntary or mandatory disclosures and adoption etc (Barth et al. 2008; Daske, Hail, Leuz & Verdi 2007; Negash, 2008; Epstein, 2009, Negash,). Leuz & Wysocki (2008:71-72) suggest that reporting quality is shaped by numerous factors in countries’ institutional environments and interactions between these elements. Also, Irvine & Lucas (2006:13) has called for research to examine challenges involved in actually implementing IFRS in emerging economies.
Along this line, Hail, Leuz & Wysoki (2009) highlight unique institutional features of U.S. markets to assess the potential impact of IFRS adoption on the quality and comparability of U.S. reporting practices, ensuing capital market effects, and potential costs of switching from U.S. GAAP to IFRS. They show that decision to adopt IFRS mainly involves a cost benefit trade-off between (1) recurring, albeit modest, comparability benefits for investors, (2) recurring future cost savings that will largely accrue to multinational companies, and (3) one-time transition costs borne by all firms and the U.S. economy as a whole, including those from adjustments to U.S. institutions. Daske, Hail, Leuz & Verdi (2007) also examine the impact of IFRS adoption in 26 countries on market liquidity, cost of equity capital and Tobin’s q. They find that, on average, market liquidity and equity valuations increase around the introduction of mandatory IFRS in a country. However, these market benefits exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives.

Daske et al. (2008) and Platikanova & Nobes (2007) have argued that capital market benefits from IFRS depend on countries’ institutional environments. Malriat (2009) argues that the best results in IFRS adoption have been seen in countries with strict enforcement regimes and institutional structures that provide strong reporting incentives. These countries are more likely to have discernable capital-market effects when using IFRS reporting. A "serious" commitment to IFRS has shown larger cost of capital and market liquidity benefits compared to adopting IFRS as a "label. Weak institution structures result in polarised non-compliance with IFRS especially in developing and transitional economies (Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003) The inappropriateness of IFRS in developing and transitional countries has reflected in the high level of non-compliance with these standards (Abayo et al., 1993, Solas, 1994; Street et al., 1999,Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003).The reasons adduced include shortage of accountants and skill gap. Irvine & Lucas (2006) argue that emerging economy such as United Arab Emirate in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. It is argued that developing countries and emerging economies, in pursuing the global economic benefits offered by the adoption of IFRS, face challenges in
adapting their regulatory infrastructure and culture to western-oriented accounting standards.

Solas (1994) examined the extent of financial information disclosure by Jordanian companies according to the requirements of IFRS. He concluded that disclosure was at unacceptable level. Using a world sample of companies, Street & Gray (2001) found a significant extent of non-compliance with IFRS in France and Africa. The objective of their research was to examine the financial statements and footnotes of a worldwide sample of companies referring to the use of International Accounting Standards (IAS), to explore further the extent of noncompliance, and most importantly to provide information about the factors associated with noncompliance. They find a significant extent of noncompliance with IAS and that key factors associated with levels of compliance include listing status, being audited by a Big 5+2 firm, the manner of reference to IAS, and country of domicile. The decision of the Egyptian government to mandate an immediate implementation of IFRS in 1997 allowed neither the listed companies nor the accounting profession adequate time to adapt to the ‘new’ standards. The result was low non-compliance with their requirements by the listed companies (Kholeif, 2008, Abd-Elsalam & Weetman 2003) due to relative unfamiliarity with IFRS requirements and non-availability of an authoritative translation or language effect. This made listed companies in Egypt ‘selective in their choice of what to comply with.

Sucher & Jindrichovska (2004) consider the issues that arise when implementing new accounting regulations like IFRS reporting in Czech Republic such as the method of implementation, the scope of IFRS, particular issues with local accounting practice and IFRS, the issue of enforcement of compliance with IFRS and its relationship with audit, the link between IFRS reporting and taxation and the provision of education and training as well as a review of the state of preparedness of local groups. Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards and convergence. Despite the lofty benefits being envisaged from IFRS adoption by countries all over the world including Nigeria, a critical issue that needs consideration is the weak institutional framework. Ball (2006) argues that implementation is the Achilles heel of IFRS and the possibility of uniform application of IFRSs across different jurisdictions has been questioned because of

Others serious challenges to IFRS adoption include:

1. IASB FUNDING, STAFFING AND GOVERNANCE STRUCTURE, CONSISTENT ADOPTION

Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran, 2006). Dominance of the developed countries and Political lobbying.

The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB’s standards (Ball, 1995, Nobes & Zeff, 2008).

2. CONSISTENT ADOPTION, APPLICATION AND REGULATORY REVIEW

Presently most IFRS adoptions are in labels (Daske et al., 2007) and with various versions which are inconsistent with IASB’s prescription (Ball, 2006). Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis et al., 2009). Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street, 2004).

3. COMPLIANCE ISSUES AND ENFORCEMENT MECHANISMS

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally
disturbing is auditors failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

4. CULTURAL AND STRUCTURAL CHANGES IN THE VARIOUS INSTITUTIONS IN A COUNTRY

The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country’s regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, and tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators), corporate governance structure, the press, public, educational institutions and business schools, financial market (structure, depth and intermediation) etc (Ball, 2006).

1.7 Types of IFRS

IFRS 1
IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.

A restructured version of IFRS 1 was issued in November 2008 and applies if an entity's first IFRS financial statements are for a period beginning on or after 1 July 2009.

Table 1 - History of IFRS 1

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2001</td>
<td>Project added to IASB agenda</td>
<td>History of the project</td>
</tr>
<tr>
<td>31 July 2002</td>
<td>Exposure Draft ED 1 First-time Application of IFRSs published</td>
<td>Comment deadline 31 October 2002</td>
</tr>
<tr>
<td>June 2003</td>
<td>IFRS 1 First-time Adoption of IFRSs issued</td>
<td>Effective for the first IFRS financial statements for a period beginning on or after 1 January 2004</td>
</tr>
<tr>
<td>30 June 2005</td>
<td>Amended by Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (more information)</td>
<td>A minor amendment to clarify that the exemption in relation to IFRS 6 applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.</td>
</tr>
<tr>
<td>22 May 2008</td>
<td>Amended by Amendments to IFRS 1 and IAS 27 — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</td>
<td>Effective for annual periods beginning on or after 1 January 2009</td>
</tr>
<tr>
<td>24 November 2008</td>
<td>Restructured version of IFRS 1 issued</td>
<td>Effective if an entity's first IFRS financial statements are for a period beginning on or after 1 July 2009</td>
</tr>
<tr>
<td>23 July 2009</td>
<td>Amended by Additional Exemptions for First-time Adopters (Amendments to IFRS 1) (oil and gas assets, leases). Click for more information.</td>
<td>Effective for annual periods beginning on or after 1 January 2010</td>
</tr>
<tr>
<td>29 January 2010</td>
<td>Amended by Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1). Click for more information</td>
<td>Effective for annual periods beginning on or after 1 July 2010</td>
</tr>
<tr>
<td>Date</td>
<td>Amended by</td>
<td>Effective for annual periods beginning on or after 1 July 2011</td>
</tr>
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<td>-----------------</td>
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<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>6 May 2010</td>
<td>Amended by Improvements to IFRSs (accounting policies changes, revaluation basis as deemed cost, rate regulation)</td>
<td></td>
</tr>
<tr>
<td>20 December 2010</td>
<td>Amended by Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment to IFRS 1). Click for more information</td>
<td>Effective for annual periods beginning on or after 1 July 2011</td>
</tr>
<tr>
<td>13 March 2012</td>
<td>Amended by Government Loans (Amendments to IFRS 1). Click for more information</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>17 May 2012</td>
<td>Amended by Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs). Click for more information</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>12 December 2013</td>
<td>Amended by Annual Improvements to IFRSs 2011–2013 Cycle (meaning of effective IFRSs). Click for more information</td>
<td>Amendment to basis for conclusions only</td>
</tr>
</tbody>
</table>

**OBJECTIVE**

IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements.

Note: An entity that conducts rate-regulated activities and has recognised amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to 'regulatory assets' and 'regulatory liabilities') can optionally apply IFRS 14 Regulatory Deferral Accounts in addition to IFRS 1. An entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements.

**DEFINITION OF FIRST-TIME ADOPTION**

A first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that its general purpose financial statements comply with IFRSs. [IFRS 1.3]
An entity may be a first-time adopter if, in the preceding year, it prepared IFRS financial statements for internal management use, as long as those IFRS financial statements were not made available to owners or external parties such as investors or creditors. If a set of IFRS financial statements was, for any reason, made available to owners or external parties in the preceding year, then the entity will already be considered to be on IFRSs, and IFRS 1 does not apply. [IFRS 1.3]

An entity can also be a first-time adopter if, in the preceding year, its financial statements: [IFRS 1.3]

Asserted compliance with some but not all IFRSs, or included only a reconciliation of selected figures from previous GAAP to IFRSs. (Previous GAAP means the GAAP that an entity followed immediately before adopting to IFRSs.)

However, an entity is not a first-time adopter if, in the preceding year, its financial statements asserted: Compliance with IFRSs even if the auditor's report contained a qualification with respect to conformity with IFRSs. Compliance with both previous GAAP and IFRSs.

An entity that applied IFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs can choose to: apply the requirements of IFRS 1 (including the various permitted exemptions to full retrospective application), or retrospectively apply IFRSs in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, as if it never stopped applying IFRSs. [IFRS 1.4A]

**IFRS 2**

IFRS 2 Share-based Payment requires an entity to recognise share-based payment transactions (such as granted shares, share options, or share appreciation rights) in its financial statements, including transactions with employees or other parties to be settled
in cash, other assets, or equity instruments of the entity. Specific requirements are
included for equity-settled and cash-settled share-based payment transactions, as well
as those where the entity or supplier has a choice of cash or equity instruments.

IFRS 2 was originally issued in February 2004 and first applied to annual periods
beginning on or after 1 January 2005.

Table 2 - History of IFRS 2

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2000</td>
<td>G4+1 Discussion Paper Accounting for Share-Based Payments published</td>
<td>Comment deadline 31 October 2000</td>
</tr>
<tr>
<td>July 2001</td>
<td>Project added to IASB agenda</td>
<td>History of the project</td>
</tr>
<tr>
<td>20 September 2001</td>
<td>IASB invites comments on G4+1 Discussion Paper Accounting for Share-Based Payments</td>
<td>Comment deadline 15 December 2001</td>
</tr>
<tr>
<td>7 November 2002</td>
<td>Exposure Draft ED 2 Share-Based Payment published</td>
<td>Comment deadline 7 March 2003</td>
</tr>
<tr>
<td>19 February 2004</td>
<td>IFRS 2 Share-based Payment issued</td>
<td>Effective for annual periods beginning on or after 1 January 2005</td>
</tr>
<tr>
<td>2 February 2006</td>
<td>Exposure Draft Vesting Conditions and Cancellations published</td>
<td>Comment deadline 2 June 2006</td>
</tr>
<tr>
<td>17 January 2008</td>
<td>Amended by Vesting Conditions and Cancellations (Amendments to IFRS 2)</td>
<td>Effective for annual periods beginning on or after 1 January 2009</td>
</tr>
<tr>
<td>16 April 2009</td>
<td>Amended by Improvements to IFRSs (scope of IFRS 2 and revised IFRS 3)</td>
<td>Effective for annual periods beginning on or after 1 July 2009</td>
</tr>
</tbody>
</table>
DEFINITION OF SHARE-BASED PAYMENT

A share-based payment is a transaction in which the entity receives goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of (a) equity, (b) cash, or (c) equity or cash.

SCOPE

The concept of share-based payments is broader than employee share options. IFRS 2 encompasses the issuance of shares, or rights to shares, in return for services and goods. Examples of items included in the scope of IFRS 2 are share appreciation rights, employee share purchase plans, employee share ownership plans, share option plans and plans where the issuance of shares (or rights to shares) may depend on market or non-market related conditions.

IFRS 2 applies to all entities. There is no exemption for private or smaller entities. Furthermore, subsidiaries using their parent's or fellow subsidiary's equity as consideration for goods or services are within the scope of the Standard.

There are two exemptions to the general scope principle:
First, the issuance of shares in a business combination should be accounted for under IFRS 3 Business Combinations. However, care should be taken to distinguish share-based payments related to the acquisition from those related to continuing employee services. Second, IFRS 2 does not address share-based payments within the scope of paragraphs 8-10 of IAS 32 Financial Instruments: Presentation, or paragraphs 5-7 of IAS 39 Financial Instruments: Recognition and Measurement. Therefore, IAS 32 and IAS 39 should be applied for commodity-based derivative contracts that may be settled in shares or rights to shares.

IFRS 2 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares, and the issuance of additional shares are therefore outside its scope.

RECOGNITION AND MEASUREMENT

The issuance of shares or rights to shares requires an increase in a component of equity. IFRS 2 requires the offsetting debit entry to be expensed when the payment for goods or services does not represent an asset. The expense should be recognised as the goods or services are consumed. For example, the issuance of shares or rights to shares to purchase inventory would be presented as an increase in inventory and would be expensed only once the inventory is sold or impaired.

The issuance of fully vested shares, or rights to shares, is presumed to relate to past service, requiring the full amount of the grant-date fair value to be expensed immediately. The issuance of shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expensed over the vesting period.

As a general principle, the total expense related to equity-settled share-based payments will equal the multiple of the total instruments that vest and the grant-date fair value of those instruments. In short, there is truing up to reflect what happens during the vesting period. However, if the equity-settled share-based payment has a market related performance condition, the expense would still be recognised if all other vesting
conditions are met. The following example provides an illustration of a typical equity-settled share-based payment.

**IFRS 3**

IFRS 3 Business Combinations outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

A revised version of IFRS 3 was issued in January 2008 and applies to business combinations occurring in an entity's first annual period beginning on or after 1 July 2009.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2001</td>
<td>Project added to IASB agenda</td>
<td>History of the project</td>
</tr>
<tr>
<td></td>
<td>(carried over from the old IASC)</td>
<td></td>
</tr>
<tr>
<td>5 December 2002</td>
<td>Exposure Draft ED 3 Business Combinations and related exposure drafts proposing amendments to IAS 36 and IAS 38 published</td>
<td>Comment deadline 4 April 2003</td>
</tr>
<tr>
<td>31 March 2004</td>
<td>IFRS 3 Business Combinations (2004) and related amended versions of IAS 36 and IAS 38 issued</td>
<td>Effective for business combinations for which the agreement date is on or after 31 March 2004</td>
</tr>
<tr>
<td></td>
<td>(IFRS 3 supersedes IAS 22)</td>
<td></td>
</tr>
<tr>
<td>29 April 2004</td>
<td>Exposure Draft Combinations by Contract Alone or Involving Mutual Entities published</td>
<td>Comment deadline 31 July 2004</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Details</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>30 June 2005</td>
<td>Exposure Draft Proposed Amendments to IFRS 3 published</td>
<td>Comment deadline 28 October 2005</td>
</tr>
<tr>
<td>10 January 2008</td>
<td>IFRS 3 Business Combinations (2008) issued</td>
<td>Applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009</td>
</tr>
<tr>
<td>6 May 2010</td>
<td>Amended by Annual Improvements to IFRSs 2010 (measurement of non-controlling interests, replaced share-based payment awards, transitional arrangements for contingent consideration)</td>
<td>Effective for annual periods beginning on or after 1 July 2010</td>
</tr>
<tr>
<td>12 December 2013</td>
<td>Amended by Annual Improvements to IFRSs 2010–2012 Cycle (contingent consideration)</td>
<td>Applicable for business combinations for which the acquisition date is on or after 1 July 2014</td>
</tr>
<tr>
<td>12 December 2013</td>
<td>Amended by Annual Improvements to IFRSs 2011–2013 Cycle (scope exception for joint ventures)</td>
<td>Effective for annual periods beginning on or after 1 July 2014</td>
</tr>
</tbody>
</table>

**SCOPE**

IFRS 3 must be applied when accounting for business combinations, but does not apply to:

The formation of a joint venture* [IFRS 3.2(a)] The acquisition of an asset or group of assets that is not a business, although general guidance is provided on how such transactions should be accounted for [IFRS 3.2(b)] Combinations of entities or businesses under common control (the IASB has a separate agenda project on common control transactions) [IFRS 3.2(c)] Acquisitions by an investment entity of a subsidiary
that is required to be measured at fair value through profit or loss under IFRS 10 Consolidated Financial Statements. [IFRS 3.2A]

* Annual Improvements to IFRSs 2011–2013 Cycle, effective for annual periods beginning on or after 1 July 2014, amends this scope exclusion to clarify that is applies to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

DETERMINING WHETHER A TRANSACTION IS A BUSINESS COMBINATION

IFRS 3 provides additional guidance on determining whether a transaction meets the definition of a business combination, and so accounted for in accordance with its requirements. This guidance includes:

Business combinations can occur in various ways, such as by transferring cash, incurring liabilities, issuing equity instruments (or any combination thereof), or by not issuing consideration at all (i.e. by contract alone) [IFRS 3.B5] Business combinations can be structured in various ways to satisfy legal, taxation or other objectives, including one entity becoming a subsidiary of another, the transfer of net assets from one entity to another or to a new entity [IFRS 3.B6] The business combination must involve the acquisition of a business, which generally has three elements: [IFRS 3.B7] Inputs – an economic resource (e.g. non-current assets, intellectual property) that creates outputs when one or more processes are applied to it Process – a system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs (e.g. strategic management, operational processes, resource management) Output – the result of inputs and processes applied to those inputs.

METHOD OF ACCOUNTING FOR BUSINESS COMBINATIONS

ACQUISITION METHOD

The acquisition method (called the 'purchase method' in the 2004 version of IFRS 3) is used for all business combinations. [IFRS 3.4]

Steps in applying the acquisition method are: [IFRS 3.5]
Identification of the 'acquirer' Determination of the 'acquisition date' Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-
controlling interest (NCI, formerly called minority interest) in the acquiree Recognition and measurement of goodwill or a gain from a bargain purchase

**IFRS 4**

IFRS 4 Insurance Contracts applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB’s comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when selecting accounting policies for insurance contracts.

IFRS 4 was issued in March 2004 and applies to annual periods beginning on or after 1 January 2005.

Table 4 - History of IFRS 4

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2001</td>
<td>Comprehensive insurance contracts project carried over from IASC to new IASB</td>
<td>History of the comprehensive project</td>
</tr>
<tr>
<td>May 2002</td>
<td>Short-term insurance contracts project split off from comprehensive project</td>
<td>History of the short-term project</td>
</tr>
<tr>
<td>31 July 2003</td>
<td>Exposure Draft ED 5 Insurance Contracts published</td>
<td>Comment deadline 31 October 2003</td>
</tr>
<tr>
<td>31 March 2004</td>
<td>IFRS 4 Insurance Contracts issued</td>
<td>Effective for annual periods beginning on or after 1 January 2005</td>
</tr>
<tr>
<td>18 August 2005</td>
<td>Amended by Financial Guarantee Contracts (Amendments to IAS 39 and IFRS 4)</td>
<td>Effective for annual periods beginning on or after 1 January 2006</td>
</tr>
</tbody>
</table>

**BACKGROUND**

IFRS 4 is the first guidance from the IASB on accounting for insurance contracts – but not the last. A comprehensive project on insurance contracts is under way. The Board issued IFRS 4 because it saw an urgent need for improved disclosures for insurance
contracts, and some improvements to recognition and measurement practices, in time for the adoption of IFRS by listed companies throughout Europe and elsewhere in 2005.

SCOPE

IFRS 4 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. [IFRS 4.2] It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement. [IFRS 4.3] Furthermore, it does not address accounting by policyholders. [IFRS 4.4(f)]

In 2005, the IASB amended the scope of IAS 39 to include financial guarantee contracts issued. However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts. [IFRS 4.4(d)]

DEFINITION OF INSURANCE CONTRACT

An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." [IFRS 4.Appendix A]

ACCOUNTING POLICIES

The IFRS exempts an insurer temporarily (until completion of Phase II of the Insurance Project) from some requirements of other IFRSs, including the requirement to consider IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in selecting accounting policies for insurance contracts. However, the standard: [IFRS 4.14]

prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets requires an insurer to keep insurance liabilities in its balance sheet until they are
discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets and income or expense from reinsurance contracts against the expense or income from the related insurance contract.

**CHANGES IN ACCOUNTING POLICIES**

IFRS 4 permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. [IFRS 4.22] In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them: [IFRS 4.25], measuring insurance liabilities on an undiscounted basis measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current market-based fees for similar services using non-uniform accounting policies for the insurance liabilities of subsidiaries.

**IFRS 5**

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations outlines how to account for non-current assets held for sale (or for distribution to owners). In general terms, assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

IFRS 5 was issued in March 2004 and applies to annual periods beginning on or after 1 January 2005.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
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<tbody>
<tr>
<td>September 2002</td>
<td>Project added to IASB agenda</td>
<td>History of the project</td>
</tr>
</tbody>
</table>
BACKGROUND

IFRS 5 achieves substantial convergence with the requirements of US SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets with respect to the timing of the classification of operations as discontinued operations and the presentation of such operations. With respect to long-lived assets that are not being disposed of, the impairment recognition and measurement standards in SFAS 144 are significantly different from those in IAS 36 Impairment of Assets. However those differences were not addressed in the short-term IASB-FASB convergence project.

KEY PROVISIONS OF IFRS 5 RELATING TO ASSETS HELD FOR SALE HELD-FOR-SALE CLASSIFICATION
In general, the following conditions must be met for an asset (or 'disposal group') to be classified as held for sale: [IFRS 5.6-8]

management is committed to a plan to sell the asset is available for immediate sale an active programme to locate a buyer is initiated the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions) the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

The assets need to be disposed of through sale. Therefore, operations that are expected to be wound down or abandoned would not meet the definition (but may be classified as discontinued once abandoned). [IFRS 5.13]

An entity that is committed to a sale involving loss of control of a subsidiary that qualifies for held-for-sale classification under IFRS 5 classifies all of the assets and liabilities of that subsidiary as held for sale, even if the entity will retain a non-controlling interest in its former subsidiary after the sale. [IFRS 5.8A]

HELD FOR DISTRIBUTION TO OWNERS CLASSIFICATION

The classification, presentation and measurement requirements of IFRS 5 also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners. [IFRS 5.5A and IFRIC 17] The entity must be committed to the distribution, the assets must be available for immediate distribution and the distribution must be highly probable. [IFRS 5.12A]

DISPOSAL GROUP CONCEPT

A 'disposal group' is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting impairment loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by IAS 36. [IFRS 5.4]
**MEASUREMENT**

The following principles apply:

At the time of classification as held for sale. Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs. Resulting adjustments are also recognised in accordance with applicable IFRSs. [IFRS 5.18] After classification as held for sale. Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell (fair value less costs to distribute in the case of assets classified as held for distribution to owners). [IFRS 5.15-15A] Impairment. Impairment must be considered both at the time of classification as held for sale and subsequently:

At the time of classification as held for sale. Immediately prior to classifying an asset or disposal group as held for sale, impairment is measured and recognised in accordance with the applicable IFRSs (generally IAS 16 Property, Plant and Equipment, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, and IAS 39 Financial Instruments: Recognition and Measurement/IFRS 9 Financial Instruments). Any impairment loss is recognised in profit or loss unless the asset had been measured at revalued amount under IAS 16 or IAS 38, in which case the impairment is treated as a revaluation decrease. After classification as held for sale. Calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 must be recognised in profit or loss [IFRS 5.20], even for assets previously carried at revalued amounts. This is supported by IFRS 5 BC.47 and BC.48, which indicate the inconsistency with IAS 36.

Assets carried at fair value prior to initial classification. For such assets, the requirement to deduct costs to sell from fair value may result in an immediate charge to profit or loss. Subsequent increases in fair value. A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognised in accordance with IFRS 5 or previously in accordance with IAS 36. [IFRS 5.21-22] No depreciation. Non-current assets or disposal groups that are classified as held for sale are not depreciated. [IFRS 5.25]
IFRS 6

IFRS 6 Exploration for and Evaluation of Mineral Resources has the effect of allowing entities adopting the standard for the first time to use accounting policies for exploration and evaluation assets that were applied before adopting IFRSs. It also modifies impairment testing of exploration and evaluation assets by introducing different impairment indicators and allowing the carrying amount to be tested at an aggregate level (not greater than a segment).

IFRS 6 was issued in December 2004 and applies to annual periods beginning on or after 1 January 2006.

Table 6 - History of IFRS 6

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2000</td>
<td>IASC issues paper Summary of Issues: Extractive Industries published and comments invited</td>
<td>Comment deadline 30 June 2001</td>
</tr>
<tr>
<td>01-Apr-01</td>
<td>Project on extractive industries carried over from IASC</td>
<td>History of the comprehensive project</td>
</tr>
<tr>
<td>September 2002</td>
<td>Short-term project split off from comprehensive project</td>
<td>History of the short-term project</td>
</tr>
<tr>
<td>16 January 2004</td>
<td>Exposure Draft ED 6 Exploration for and Evaluation of Mineral Resources published</td>
<td>Comment deadline 16 April 2004</td>
</tr>
<tr>
<td>9 December 2004</td>
<td>IFRS 6 Exploration and Evaluation of Mineral Resources issued</td>
<td>Effective for annual periods beginning on or after 1 January 2006</td>
</tr>
</tbody>
</table>
DEFINITIONS

Exploration for and evaluation of mineral resources means the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. [IFRS 6.Appendix A]

Exploration and evaluation expenditures are expenditures incurred in connection with the exploration and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource is demonstrable. [IFRS 6.Appendix A]

ACCOUNTING POLICIES FOR EXPLORATION AND EVALUATION

IFRS 6 permits an entity to develop an accounting policy for recognition of exploration and evaluation expenditures as assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. [IFRS 6.9] Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.
IMPAIRMENT

IFRS 6 effectively modifies the application of IAS 36 Impairment of Assets to exploration and evaluation assets recognised by an entity under its accounting policy. Specifically:

Entities recognising exploration and evaluation assets are required to perform an impairment test on those assets when specific facts and circumstances outlined in the standard indicate an impairment test is required. The facts and circumstances outlined in IFRS 6 are non-exhaustive, and are applied instead of the ‘indicators of impairment’ in IAS 36 [IFRS 6.19-20] Entities are permitted to determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of CGUs. [IFRS 6.21] This accounting policy may result in a different allocation than might otherwise arise on applying the requirements of IAS 36 If an impairment test is required, any impairment loss is measured, presented and disclosed in accordance with IAS 36. [IFRS 6.18]

IFRS 7

IFRS 7 Financial Instruments: Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.

IFRS 7 was originally issued in August 2005 and applies to annual periods beginning on or after 1 January 2007.

Table 7 - History of IFRS 7

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
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<tbody>
<tr>
<td>22 July 2004</td>
<td>Exposure Draft ED 7 Financial Instruments: Disclosures published</td>
<td>Comment deadline 14 September 2009</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
<td>Effective Date</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>18 August 2005</td>
<td>IFRS 7 Financial Instruments: Disclosures issued</td>
<td>Effective for annual periods beginning on or after 1 January 2007</td>
</tr>
<tr>
<td>22 May 2008</td>
<td>Amended by Improvements to IFRSs (required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss, presentation of finance costs)</td>
<td>Effective for annual periods beginning on or after 1 January 2009</td>
</tr>
<tr>
<td>23 December 2008</td>
<td>Exposure Draft Investments in Debt Instruments (Proposed Amendments to IFRS 7) published</td>
<td>Comment deadline 15 January 2009 (Project subsequently abandoned in January 2009)</td>
</tr>
<tr>
<td>5 March 2009</td>
<td>Improving Disclosures about Financial Instruments (Amendments to IFRS 7) issued</td>
<td>Effective for annual periods beginning on or after 1 January 2009</td>
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<tr>
<td>6 May 2010</td>
<td>Amended by Improvements to IFRSs (clarification of disclosures)</td>
<td>Effective for annual periods beginning on or after 1 January 2011</td>
</tr>
<tr>
<td>7 October 2010</td>
<td>Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) issued</td>
<td>Effective for annual periods beginning on or after 1 July 2011</td>
</tr>
<tr>
<td>16 December 2011</td>
<td>Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) issued</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>16 December 2011</td>
<td>Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) issued</td>
<td>Effective for annual periods beginning on or after 1 January 2015 (or otherwise when IFRS 9 is first applied)*</td>
</tr>
</tbody>
</table>
OVERVIEW OF IFRS 7

adds certain new disclosures about financial instruments to those previously required by IAS 32 Financial Instruments: Disclosure and Presentation (as it was then cited) replaces the disclosures previously required by IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions puts all of those financial instruments disclosures together in a new standard on Financial Instruments: Disclosures. The remaining parts of IAS 32 deal only with financial instruments presentation matters.

DISCLOSURE REQUIREMENTS OF IFRS 7

IFRS requires certain disclosures to be presented by category of instrument based on the IAS 39 measurement categories. Certain other disclosures are required by class of financial instrument. For those disclosures an entity must group its financial instruments into classes of similar instruments as appropriate to the nature of the information presented. [IFRS 7.6]

The two main categories of disclosures required by IFRS 7 are:

- Information about the significance of financial instruments.
- information about the nature and extent of risks arising from financial instruments
INFORMATION ABOUT THE SIGNIFICANCE OF FINANCIAL INSTRUMENTS

Statement of financial position

Disclose the significance of financial instruments for an entity's financial position and performance. [IFRS 7.7] This includes disclosures for each of the following categories: [IFRS 7.8]

Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition held-to-maturity investments loans and receivables available-for-sale assets financial liabilities at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition financial liabilities measured at amortised cost

Other balance sheet-related disclosures:

special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit and loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.[IFRS 7.9-11] reclassifications of financial instruments from one category to another (e.g. from fair value to amortised cost or vice versa) [IFRS 7.12-12A] information about financial assets pledged as collateral and about financial or non-financial assets held as collateral [IFRS 7.14-15] reconciliation of the allowance account for credit losses (bad debts) by class of financial assets[IFRS 7.16] information about compound financial instruments with multiple embedded derivatives [IFRS 7.17] breaches of terms of loan agreements [IFRS 7.18-19]

Statement of comprehensive income

Items of income, expense, gains, and losses, with separate disclosure of gains and losses from: [IFRS 7.20(a)]

Financial assets measured at fair value through profit and loss, showing separately those held for trading and those designated at initial recognition. Held-to-maturity investments. Loans and receivables. Available-for-sale assets. Financial liabilities measured at fair value through profit and loss, showing
separately those held for trading and those designated at initial recognition. Financial liabilities measured at amortised cost.

Other income statement-related disclosures:

Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss [IFRS 7.20(b)] fee income and expense [IFRS 7.20(c)] amount of impairment losses by class of financial assets [IFRS 7.20(e)] interest income on impaired financial assets [IFRS 7.20(d)]

Other disclosures

Accounting policies for financial instruments [IFRS 7.21] Information about hedge accounting, including: [IFRS 7.22]

description of each hedge, hedging instrument, and fair values of those instruments, and nature of risks being hedged for cash flow hedges, the periods in which the cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur if a gain or loss on a hedging instrument in a cash flow hedge has been recognised in other comprehensive income, an entity should disclose the following: [IAS 7.23] the amount that was so recognised in other comprehensive income during the period the amount that was removed from equity and included in profit or loss for the period the amount that was removed from equity during the period and included in the initial measurement of the acquisition cost or other carrying amount of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction

Note: Where IFRS 9 Financial Instruments (2013) is applied, revised disclosure requirements apply. The required hedge accounting disclosures apply where the entity elects to adopt hedge accounting and require information to be provided in three broad categories: (1) the entity’s risk management strategy and how it is applied to manage risk (2) how the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows, and (3) the effect that hedge accounting has had on the entity’s statement of financial position,
statement of comprehensive income and statement of changes in equity. The disclosures are required to be presented in a single note or separate section in its financial statements, although some information can be incorporated by reference.

For fair value hedges, information about the fair value changes of the hedging instrument and the hedged item [IFRS 7.24(a)] Hedge ineffectiveness recognised in profit and loss (separately for cash flow hedges and hedges of a net investment in a foreign operation) [IFRS 7.24(b-c)] Information about the fair values of each class of financial asset and financial liability, along with: [IFRS 7.25-30]

comparable carrying amounts description of how fair value was determined the level of inputs used in determining fair value reconciliations of movements between levels of fair value measurement hierarchy additional disclosures for financial instruments whose fair value is determined using level 3 inputs including impacts on profit and loss, other comprehensive income and sensitivity analysis information if fair value cannot be reliably measured

The fair value hierarchy introduces 3 levels of inputs based on the lowest level of input significant to the overall fair value (IFRS 7.27A-27B):

Level 1 – quoted prices for similar instruments Level 2 – directly observable market inputs other than Level 1 inputs Level 3 – inputs not based on observable market data

Note that disclosure of fair values is not required when the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables, or for instruments whose fair value cannot be measured reliably. [IFRS 7.29(a)]

**IFRS 8**

IFRS 8 Operating Segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the
identification of operating segments and measurement of disclosed segment information.

IFRS 8 was issued in November 2006 and applies to annual periods beginning on or after 1 January 2009.

### Table 8 - History of IFRS 8

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 January 2006</td>
<td>ED 8 <em>Operating Segments</em> issued</td>
<td>Comment deadline 19 May 2006. (IASB press release)</td>
</tr>
<tr>
<td>30 November 2006</td>
<td>IFRS 8 <em>Operating Segments</em> issued</td>
<td>Effective for annual periods beginning on or after 1 January 2009, superseding IAS 14 <em>Segment Reporting</em></td>
</tr>
<tr>
<td>16 April 2009</td>
<td>Amended by Annual Improvements to IFRSs 2009 (disclosures of segment assets)</td>
<td>Effective for annual periods beginning on or after 1 January 2010</td>
</tr>
<tr>
<td>18 July 2013</td>
<td>Report and Feedback Statement <em>Post-implementation Review: IFRS 8</em> <em>Operating Segments</em> published</td>
<td>Areas for potential improvement and amendment will be considered through the IASB's normal processes</td>
</tr>
<tr>
<td>12 December 2013</td>
<td>Amended by Annual Improvements to IFRSs 2010–2012 Cycle (aggregation of operating segments, reconciliations of assets)</td>
<td>Effective for annual periods beginning on or after 1 July 2014</td>
</tr>
</tbody>
</table>

**SCOPE**

IFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):
Whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market [IFRS 8.2]

However, when both separate and consolidated financial statements for the parent are presented in a single financial report, segment information need be presented only on the basis of the consolidated financial statements [IFRS 8.4]

**OPERATING SEGMENTS**

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity: [IFRS 8.2], that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available

**REPORTABLE SEGMENTS**

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria: [IFRS 8.13], its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, or the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss, or its assets are 10 per cent or more of the combined assets of all operating segments.
Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principles of the standard, the segments have similar economic characteristics and are similar in various prescribed respects. [IFRS 8.12]

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments. [IFRS 8.15]

**IFRS 9**

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase.

The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). For a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015.

IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the ‘macro hedge accounting’ requirements) since this phase of the project was separated from the IFRS 9 project due to the longer term nature of the macro hedging project which is currently at the discussion paper phase of the due process. In April 2014, the IASB published a Discussion Paper Accounting for Dynamic Risk management: a Portfolio Revaluation Approach to Macro Hedging.
Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.

Table 9 - History of IFRS 9

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 November 2009</td>
<td>IFRS 9 Financial Instruments issued, covering classification and measurement of financial assets</td>
<td>Original effective date 1 January 2013, later removed</td>
</tr>
<tr>
<td>11 May 2010</td>
<td>Exposure Draft ED/2010/4 Fair Value Option for Financial Liabilities published</td>
<td>Comment deadline 16 July 2010</td>
</tr>
<tr>
<td>28 October 2010</td>
<td>IFRS 9 Financial Instruments reissued, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities</td>
<td>Original effective date 1 January 2013, later removed</td>
</tr>
<tr>
<td>4 August 2011</td>
<td>ED/2011/3 Amendments to IFRS 9 (2009) and IFRS 9 (2010): Mandatory Effective Date published, proposing the adjust the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015</td>
<td>Comment deadline 21 October 2011</td>
</tr>
<tr>
<td>16 December 2011</td>
<td>Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) published</td>
<td>Amended the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 (removed in 2013), and modified the relief from restating comparative periods and the associated disclosures in IFRS 7</td>
</tr>
<tr>
<td>28 November 2012</td>
<td>Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9 (proposed amendments to IFRS 9 (2010)) published</td>
<td>Comment deadline 28 March 2013</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Details</td>
</tr>
<tr>
<td>-------------</td>
<td>----------------------------------------------------------------------</td>
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<tr>
<td>19 November 2013</td>
<td>IASB issues IFRS 9 <em>Financial Instruments</em> (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) amending IFRS 9 to:</td>
<td>Removed the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010) include the new general hedge accounting model; allow early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income; and remove the January 2015 effective date</td>
</tr>
<tr>
<td>24 July 2014</td>
<td>IASB issues IFRS 9 <em>Financial Instruments</em></td>
<td>IFRS 9 (2014) was issued as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This amendment completes the IASB’s financial instruments project and the Standard is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements).</td>
</tr>
</tbody>
</table>
THE PHASED COMPLETION OF IFRS 9

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced new requirements for classifying and measuring financial assets that had to be applied starting 1 January 2013, with early adoption permitted. Click for IASB Press Release (PDF 101k).

On 28 October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Click for IASB Press Release (PDF 33k).

On 16 December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which amended the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, and modified the relief from restating comparative periods and the associated disclosures in IFRS 7.

On 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) amending IFRS 9 to include the new general hedge accounting model, allow early adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit or loss and remove the 1 January 2015 effective date.

On 24 July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). For a limited period, previous versions of IFRS 9 may be adopted early.
if not already done so provided the relevant date of initial application is before 1 February 2015.

**IFRS 10**

IFRS 10 Consolidated Financial Statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

IFRS 10 was issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
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<tbody>
<tr>
<td>37347</td>
<td>Project on consolidation added to the IASB's agenda (project history)</td>
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<tr>
<td>18 December 2008</td>
<td>ED 10 Consolidated Financial Statements published</td>
<td>Comment deadline 20 March 2009</td>
</tr>
<tr>
<td>29 September 2010</td>
<td>Staff draft of IFRS X Consolidated Financial Statements published</td>
<td></td>
</tr>
<tr>
<td>12 May 2011</td>
<td>IFRS 10 Consolidated Financial Statements published</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>28 June 2012</td>
<td>Amended by Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (project history)</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>31 October 2012</td>
<td>Amended by Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (project history)</td>
<td>Effective for annual periods beginning on or after 1 January 2014</td>
</tr>
<tr>
<td>41893</td>
<td>Amended by Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)</td>
<td>Effective for annual periods beginning on or after 1 January 2014</td>
</tr>
</tbody>
</table>
OBJECTIVE

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. [IFRS 10:1]

The Standard: [IFRS 10:1]

- requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- defines the principle of control, and establishes control as the basis for consolidation set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- sets out the accounting requirements for the preparation of consolidated financial statements
- Defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity*.

CONTROL

An investor determines whether it is a parent by assessing whether it controls one or more investees. An investor considers all relevant facts and circumstances when assessing whether it controls an investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. [IFRS 10:5-6; IFRS 10:8]

An investor controls an investee if and only if the investor has all of the following elements: [IFRS 10:7], power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect
the investee's returns) exposure, or rights, to variable returns from its involvement with
the investee the ability to use its power over the investee to affect the amount of the
investor's returns.

Power arises from rights. Such rights can be straightforward (e.g. through voting rights)
or be complex (e.g. embedded in contractual arrangements). An investor that holds only
protective rights cannot have power over an investee and so cannot control an investee
[IFRS 10:11, IFRS 10:14].

An investor must be exposed, or have rights, to variable returns from its involvement
with an investee to control the investee. Such returns must have the potential to vary as
a result of the investee's performance and can be positive, negative, or both. [IFRS
10:15]. A parent must not only have power over an investee and exposure or rights to
variable returns from its involvement with the investee, a parent must also have the
ability to use its power over the investee to affect its returns from its involvement with
the investee. [IFRS 10:17].

When assessing whether an investor controls an investee an investor with decision-
making rights determines whether it acts as principal or as an agent of other parties. A
number of factors are considered in making this assessment. For instance, the
remuneration of the decision-maker is considered in determining whether it is an agent.
[IFRS 10:B58, IFRS 10:B60].

**IFRS 11**

IFRS 11 Joint Arrangements outlines the accounting by entities that jointly control an
arrangement. Joint control involves the contractually agreed sharing of control and
arrangements subject to joint control are classified as either a joint venture (representing
a share of net assets and equity accounted) or a joint operation (representing rights to
assets and obligations for liabilities, accounted for accordingly).
IFRS 11 was issued in May 2011 and applies to annual reporting periods beginning on or after 1 January 2013.

Table 11 - History of IFRS 11

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
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<tbody>
<tr>
<td>November 2004</td>
<td>Project on joint arrangements added to the IASB’s agenda</td>
<td>History of the project</td>
</tr>
<tr>
<td>13 September 2007</td>
<td>Exposure Draft ED 9 Joint Arrangements published</td>
<td>Comment deadline 11 January 2008</td>
</tr>
<tr>
<td>12 May 2011</td>
<td>IFRS 11 Joint Arrangements issued</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>28 June 2012</td>
<td>Amended by Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>6 May 2014</td>
<td>Amended by Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)</td>
<td>Effective for annual periods beginning on or after 1 January 2016</td>
</tr>
</tbody>
</table>

**CORE PRINCIPLE**

The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. [IFRS 11:1-2]

**JOINT ARRANGEMENTS**

A joint arrangement is an arrangement of which two or more parties have joint control. [IFRS 11:4]
A joint arrangement has the following characteristics: [IFRS 11:5], the parties are bound by a contractual arrangement, and the contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture. [IFRS 11:6]

**JOINT CONTROL**

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. [IFRS 11:7]

Before assessing whether an entity has joint control over an arrangement, an entity first assesses whether the parties, or a group of the parties, control the arrangement (in accordance with the definition of control in IFRS 10 Consolidated Financial Statements). [IFRS 11:B5]

After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. [IFRS 11:B6]

The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. [IFRS 11:B9]

**TYPES OF JOINT ARRANGEMENTS**

Joint arrangements are either joint operations or joint ventures:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. [IFRS 11:15] A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement
have rights to the net assets of the arrangement. Those parties are called joint ventures. [IFRS 11:16]

CLASSIFYING JOINT ARRANGEMENTS

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. An entity determines the type of joint arrangement in which it is involved by considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and other facts and circumstances. [IFRS 11:6, IFRS 11:14, IFRS 11:17]

Regardless of the purpose, structure or form of the arrangement, the classification of joint arrangements depends upon the parties' rights and obligations arising from the arrangement. [IFRS 11:B14; IFRS 11:B15]

A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation. [IFRS 11:B19]

A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. [IFRS 11:B16]

FINANCIAL STATEMENTS OF PARTIES TO A JOINT ARRANGEMENT

JOINT OPERATIONS

A joint operator recognises in relation to its interest in a joint operation: [IFRS 11:20], its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output of the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.
A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant IFRSs. [IFRS 11:21]

The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. [IFRS 11:21A]

These requirements apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured). [IFRS 11:B33C]

Note: The requirements above were introduced by Accounting for Acquisitions of Interests in Joint Operations, which applies to annual periods beginning on or after 1 January 2016 on a prospective basis to acquisitions of interests in joint operations occurring from the beginning of the first period in which the amendments are applied.

A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with the above if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. [IFRS 11:23]

JOINT VENTURES

A joint venturer recognises its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures unless the entity is exempted from applying the equity method as specified in that standard. [IFRS 11:24]

A party that participates in, but does not have joint control of, a joint venture accounts for its interest in the arrangement in accordance with IFRS 9 Financial Instruments unless it has significant influence over the joint venture, in which case it accounts for it in accordance with IAS 28 (as amended in 2011). [IFRS 11:25]
SEPARATE FINANCIAL STATEMENTS

The accounting for joint arrangements in an entity's separate financial statements depends on the involvement of the entity in that joint arrangement and the type of the joint arrangement:

If the entity is a joint operator or joint venture it shall account for its interest in a joint operation in accordance with paragraphs 20-22; a joint venture in accordance with paragraph 10 of IAS 27 Separate Financial Statements. [IFRS 11:26]

If the entity is a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in: a joint operation in accordance with paragraphs 23; a joint venture in accordance with IFRS 9, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of IAS 27 (as amended in 2011). [IFRS 11:27]

IFRS 12

IFRS 12 Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

IFRS 12 was issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

Table 12 - History of IFRS 12

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2002</td>
<td>Project on consolidation added to the IASB's agenda</td>
<td>History of the project</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Details</td>
</tr>
<tr>
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<td>------------------------------------------------------------------------------------------------</td>
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<tr>
<td>November 2004</td>
<td>Project on joint arrangements added to the IASB's agenda</td>
<td></td>
</tr>
<tr>
<td>13 September 2007</td>
<td>ED 9 Joint Arrangements published</td>
<td>Comment deadline 11 January 2008</td>
</tr>
<tr>
<td>18 December 2008</td>
<td>ED 10 Consolidated Financial Statements published</td>
<td>Comment deadline 20 March 2009</td>
</tr>
<tr>
<td>January 2010</td>
<td>IASB decision to issue a separate disclosure standard addressing a reporting entity's involvement with other entities that are not in the scope of IAS 39/IFRS 9 (including subsidiaries, associates and joint arrangements and unconsolidated SPEs/structured entities)</td>
<td></td>
</tr>
<tr>
<td>12 May 2011</td>
<td>IFRS 12 Disclosure of Interests in Other Entities issued</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>28 June 2012</td>
<td>Amended by Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (project history)</td>
<td>Effective for annual periods beginning on or after 1 January 2013</td>
</tr>
<tr>
<td>31 October 2012</td>
<td>Amended by Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (project history)</td>
<td>Effective for annual periods beginning on or after 1 January 2014</td>
</tr>
</tbody>
</table>

**OBJECTIVE AND SCOPE:**

The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: [IFRS 12:1], the nature of, and risks associated with, its interests in other entities the effects of those interests on its financial position, financial performance and cash flows.

Where the disclosures required by IFRS 12, together with the disclosures required by other IFRSs, do not meet the above objective, an entity is required to disclose whatever additional information is necessary to meet the objective. [IFRS 12:3]

IFRS 12 is required to be applied by an entity that has an interest in any of the following: [IFRS 12:5], subsidiaries joint arrangements (joint operations or joint ventures) associates unconsolidated structured entities
IFRS 12 does not apply to certain employee benefit plans, separate financial statements to which IAS 27 Separate Financial Statements applies (except in relation to unconsolidated structured entities and investment entities in some cases), certain interests in joint ventures held by an entity that does not share in joint control, and the majority of interests in another entity accounted for in accordance with IFRS 9 Financial Instruments. [IFRS 12:6]

KEY DEFINITIONS

[IFRS 12:Appendix A]

Refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

DISCLOSURES REQUIRED

Important note: The summary of disclosures that follows is a high-level summary of the main requirements of IFRS 12. It does not list every specific disclosure required by the standard, but instead highlights the broad objectives, categories and nature of the disclosures required. IFRS 12 lists specific examples and additional disclosures which further expand upon the disclosure objectives, and includes other guidance on the disclosures required. Accordingly, readers should not consider this to be a comprehensive or complete listing of the disclosure requirements of IFRS 12.
SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

An entity discloses information about significant judgements and assumptions it has made (and changes in those judgements and assumptions) in determining: [IFRS 12:7], that it controls another entity that it has joint control of an arrangement or significant influence over another entity the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

INTERESTS IN SUBSIDIARIES

An entity shall disclose information that enables users of its consolidated financial statements to: [IFRS 12:10], understand the composition of the group understand the interest that non-controlling interests have in the group's activities and cash flows evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities evaluate the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control evaluate the consequences of losing control of a subsidiary during the reporting period.

INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

[Note: The investment entity consolidation exemption referred to in this section was introduced by Investment Entities, issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014.]

In accordance with IFRS 10 Consolidated Financial Statements, an investment entity is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss. [IFRS 10:31].

Where an entity is an investment entity, IFRS 12 requires additional disclosure, including: the fact the entity is an investment entity [IFRS 12:19A] information about significant judgements and assumptions it has made in determining that it is an investment entity, and specifically where the entity does not have one or more of the
'typical characteristics' of an investment entity [IFRS 12:9A] details of subsidiaries that have not been consolidated (name, place of business, ownership interests held) [IFRS 12:19B] details of the relationship and certain transactions between the investment entity and the subsidiary (e.g. restrictions on transfer of funds, commitments, support arrangements, contractual arrangements) [IFRS 12: 19D-19G] information where an entity becomes, or ceases to be, an investment entity [IFRS 12:9B] An entity making these disclosures are not required to provide various other disclosures required by IFRS 12 [IFRS 12:21A, IFRS 12:25A].

INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES

An entity shall disclose information that enables users of its financial statements to evaluate: [IFRS 12:20], the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

An entity shall disclose information that enables users of its financial statements to: [IFRS 12:24], understand the nature and extent of its interests in unconsolidated structured entities evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

APPLICABILITY AND EARLY ADOPTION

Note: This section has been updated to reflect the amendments to IFRS 12 made in June 2012 and October 2012.

[IFRS 12: Appendix C]
IFRS 12 is applicable to annual reporting periods beginning on or after 1 January 2013. Early application is permitted.

The disclosure requirements of IFRS 12 need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which IFRS 12 is applied [IFRS 12:C2A]

Entities are encouraged to voluntarily provide the information required by IFRS 12 prior to its adoption. Providing some of the disclosures required by IFRS 12 does not compel an entity to comply with all of the requirements of the IFRS or to also apply:


The amendments to IFRS 12 made by Investment Entities are applicable to annual reporting periods beginning on or after 1 January 2014 [IFRS 12:C1B].

**IFRS 13**

IFRS 13 Fair Value Measurement applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

IFRS 13 was originally issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
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<tbody>
<tr>
<td>September 2005</td>
<td>Project on fair value measurement added to the IASB's agenda</td>
<td>History of the project</td>
</tr>
</tbody>
</table>
OBJECTIVE

IFRS 13: [IFRS 13:1], defines fair value sets out in a single IFRS a framework for measuring fair value requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: [IFRS 13:5-7], share-based payment transactions within the scope of IFRS 2 Share-based Payment leasing transactions within the scope of IAS 17 Leases measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. Additional exemptions apply to the disclosures required by IFRS 13.

GUIDANCE ON MEASUREMENT

IFRS 13 provides the guidance on the measurement of fair value, including the following:
DISCLOSURE OBJECTIVE

IFRS 13 requires an entity to disclose information that helps users of its financial statements assess both of the following: [IFRS 13:91], for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

DISCLOSURE EXEMPTIONS

The disclosure requirements are not required for: [IFRS 13:7], plan assets measured at fair value in accordance with IAS 19 Employee Benefits retirement benefit plan investments measured at fair value in accordance with IAS 26 Accounting and Reporting by Retirement Benefit Plans assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36 Impairment of Assets.

IDENTIFICATION OF CLASSES

Where disclosures are required to be provided for each class of asset or liability, an entity determines appropriate classes on the basis of the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy within which the fair value measurement is categorised. [IFRS 13:94]

Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. The number of classes may need to be greater for fair value measurements categorised within Level 3.
SOME DISCLOSURES ARE DIFFERENTIATED ON WHETHER THE MEASUREMENTS ARE:

Recurring fair value measurements – fair value measurements required or permitted by other IFRSs to be recognised in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements are fair value measurements that are required or permitted by other IFRSs to be measured in the statement of financial position in particular circumstances.

SPECIFIC DISCLOSURES REQUIRED

To meet the disclosure objective, the following minimum disclosures are required for each class of assets and liabilities measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition (note these are requirements have been summarised and additional disclosure is required where necessary): [IFRS 13:93], the fair value measurement at the end of the reporting period* for non-recurring fair value measurements, the reasons for the measurement* the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)* for assets and liabilities held at the reporting date that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity’s policy for determining when transfers between levels are deemed to have occurred, separately disclosing and discussing transfers into and out of each level for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement, any change in the valuation techniques and the reason(s) for making such change (with some exceptions)* for fair value measurements categorised within Level 3 of the fair value hierarchy, quantitative information about the significant unobservable inputs used in the fair value measurement (with some exceptions) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following: total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised – separately
disclosing the amount included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised purchases, sales, issues and settlements (each of those types of changes disclosed separately) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3 for fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity for recurring fair value measurements categorised within Level 3 of the fair value hierarchy: a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, the entity also provides a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use*.

'*' in the list above indicates that the disclosure is also applicable to a class of assets or liabilities which is not measured at fair value in the statement of financial position but for which the fair value is disclosed. [IFRS 13:97]. Quantitative disclosures are required to be presented in a tabular format unless another format is more appropriate. [IFRS 13:99]
EFFECTIVE DATE AND TRANSITION

[IFRS 13:Appendix C]

IFRS 13 is applicable to annual reporting periods beginning on or after 1 January 2013. An entity may apply IFRS 13 to an earlier accounting period, but if doing so it must disclose the fact. Application is required prospectively as of the beginning of the annual reporting period in which the IFRS is initially applied. Comparative information need not be disclosed for periods before initial application. An entity takes into account the characteristics of the asset or liability being measured that a market participant would take into account when pricing the asset or liability at measurement date (e.g. the condition and location of the asset and any restrictions on the sale and use of the asset) [IFRS 13:11] Fair value measurement assumes an orderly transaction between market participants at the measurement date under current market conditions [IFRS 13:15] Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability [IFRS 13:24] A fair value measurement of a non-financial asset takes into account its highest and best use [IFRS 13:27] A fair value measurement of a financial or non-financial liability or an entity's own equity instruments assumes it is transferred to a market participant at the measurement date, without settlement, extinguishment, or cancellation at the measurement date [IFRS 13:34] The fair value of a liability reflects non-performance risk (the risk the entity will not fulfil an obligation), including an entity's own credit risk and assuming the same non-performance risk before and after the transfer of the liability [IFRS 13:42] An optional exception applies for certain financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, provided conditions are met (additional disclosure is required). [IFRS 13:48, IFRS 13:96]

IFRS 14

IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are
presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

IFRS 14 was originally issued in January 2014 and applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Table 14 - History of IFRS 14

<table>
<thead>
<tr>
<th>DATE</th>
<th>DEVELOPMENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>IASB reactivated the rate regulated activities project</td>
<td>The IASB indicated it would consider an interim standard for entities adopting IFRS before completing a comprehensive project</td>
</tr>
<tr>
<td>25 April 2013</td>
<td>Exposure Draft ED/2013/5 Regulatory Deferral Accounts published</td>
<td>Comment deadline 4 September 2013</td>
</tr>
<tr>
<td>30 January 2014</td>
<td>IFRS 14 Regulatory Deferral Accounts issued</td>
<td>Effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2016</td>
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OBJECTIVE

The objective of IFRS 14 is to specify the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. [IFRS 14:1]

IFRS 14 is designed as a limited scope Standard to provide an interim, short-term solution for rate-regulated entities that have not yet adopted International Financial Reporting Standards (IFRS). Its purpose is to allow rate-regulated entities adopting IFRS for the first-time to avoid changes in accounting policies in respect of regulatory
deferral accounts until such time as the International Accounting Standards Board (IASB) can complete its comprehensive project on rate regulated activities.

SCOPE

IFRS 14 is permitted, but not required, to be applied where an entity conducts rate-regulated activities and has recognised amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to 'regulatory assets' and 'regulatory liabilities'). [IFRS 14.5]

Entities which are eligible to apply IFRS 14 are not required to do so, and so can chose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. The election to adopt IFRS 14 is only available on the initial adoption of IFRSs, meaning an entity cannot apply IFRS 14 for the first time in financial statements subsequent to those prepared on the initial adoption of IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. [IFRS 14.6]

When applied, the requirements of IFRS 14 must be applied to all regulatory deferral account balances arising from an entity's rate-regulated activities. [IFRS 14.8]

DISCLOSURES

IFRS 14 sets out disclosure objectives to allow users to assess: [IFRS 14.27], the nature of, and risks associated with, the rate regulation that establishes the price(s) the entity can charge customers for the goods or services it provides - including information about the entity's rate-regulated activities and the rate-setting process, the identity of the rate regulator(s), and the impacts of risks and uncertainties on the recovery or reversal of regulatory deferral balance accounts the effects of rate regulation on the entity's financial statements - including the basis on which regulatory deferral account balances are recognised, how they are assessed for recovery, a reconciliation of the carrying amount at the beginning and end of the reporting period, discount rates applicable, income tax impacts and details of balances that are no longer considered recoverable or reversible.
EFFECTIVE DATE

Where an entity elects to apply it, IFRS 14 is effective for an entity's first annual IFRS financial statements that are for a period beginning on or after 1 January 2016. The standard can be applied earlier, but the entity must disclose when it has done so. [IFRS 14.C1]