IFRS Implementation Status: A Global perspective

Current implementation status

More than 12,000 companies in more than 100 countries have adopted IFRS. In the European Union, member states whose securities are listed on EU regulated stock exchanges prepare Consolidated Financial Statements as per IFRS. However, most EU countries do not permit use of IFRS in Financial statements of privately held companies. For such companies, IFRS for SME's have been recently formulated and rolled out by IASB.

In Israel, Australia and New Zealand, IFRS have been adopted as national accounting standards. China has formulated local GAAP which are IFRS based, however there are some differences to be ironed out soon. India, Canada and Japan are scheduled to adopt IFRS by 2011 and Mexico by 2012.

In the USA, SEC requires large accelerated filers to convert their financials to IFRS earliest by 2014. Non- accelerated filers including smaller public companies are required to do so earliest by 2016. More information on world -wide implementation status can be accessed at:

http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption/index.jhtml

Implications of adopting IFRS in Europe (with effect from 2005)

IFRS is perceived to be more market oriented than stakeholders' oriented. The implication of adopting IFRS can be broadly classified under the following heads as per a study done in 2006(excerpts from an article by Sachozwiy in Accounting SA in Nov 2006 and other sources):

Earnings Volatility effect

The dramatic shift from historical cost method to the more complex fair value accounting entailed change in values of more assets and liabilities, which were marked to market. Since most of the changes are charged to earnings, high volatility in earnings and resulting in uncertainty of the same in the future . Of the 27 blue chip companies that restated 2004 figures to IFRS, profit swings of 12% on an average was noticed. For example, **Diamler Chrysler**' first report using IFRS increased the automaker's tax earnings by $ 819 Million to $ 5.2 Billion, while EPS (Earnings Per Share) increased by 68 cents. Operating Profit, or Earnings before interest and taxes, dropped by $ 38 Million to $ 7.5 Billion under IFRS. The switch also reduced the loss suffered by the company's Chrysler division—the only unit to show a loss—from $ 1.5 Billion to $ 682 Million. The company attributed most of the above variation to the way pension obligations are booked under the IFRS.

Gearing Effect

Debt classification in the balance sheet underwent drastic changes since all derivatives were to be converted to their fair values as at the balance sheet date. IFRS also requires the Consolidated Financial statement to incorporate all subsidiaries (as per IFRS definition of control) and off balance sheet financing vehicles.

IFRS has more stringent norms for classification of leases as financial lease and the present value of future lease payments were to be disclosed in the balance sheet as finance lease obligations. Moreover, application of IFRS to pension/retirement benefits led to significant impact of earnings of companies like Fiat, Group Danone and ICI.
In case certain contractual terms depend on Debt/Equity ratio, the same could be breached if Debt increases in the

balance sheet based on application of IFRS principles, leading to increase in gearing ratios. If this has not been factored in the current share price, there will be a negative impact on the entity's share prices.

Disclosure Effect

IFRS requires expanded disclosure on various aspects including business segments and related party transactions. The average length of annual reports increased by a range of 50% to 150% in UK as compared to local GAAP based reports issued earlier. A classic example of this can be found with GlaxoSmithKline plc – a foreign filer with the SEC, which prepares its financial statements using IFRS. Note 41 from GSK's 2006 Form 20-F filing provide details on the company's reconciliation to U.S. GAAP. The footnote is whopping 13 pages long and discloses a long list of differences in reconciling shareholders' equity under IFRS (£9.4 billion) to shareholders' equity under U.S. GAAP (£34.7 billion).

This resulted in unfavorable impact on management and auditors since they had to obtain the required information to be disclosed as per IFRS and they also had to integrate these requirements into the accounting and other systems for internal and external management.

Favorable impact on investors was observed since more meaningful information was being disclosed.

Decision Making Effect on Fund Managers

Overall, a better valuation decision was possible due to change to IFRS reporting guidelines. A Survey conducted by PWC/IPSOS MORY of 187 fund managers in 7 EU countries showed the following:

-79% of the respondents regarded IFRS impact as significant.

-52% of the respondents stated that information disclosed by entities under IFRS had directly influenced their investment decisions.

-21% of the respondents stated that IFRS information had influenced decisions to buy.

-17% of the respondents stated that IFRS influenced them not to buy/invest in a company.

-22% stated that this had influenced them to sell existing investments.

-11% stated that their "hold" decisions were based on IFRS information.

-75% believed that IFRS enabled them to judge the financial risks assumed by the companies in a better fashion.

65% believed that IFRS enabled in better assessment of operational risks.

Decision Making effect on Management

IFRS has influenced corporate policy and operating decisions including revision of remuneration packages driven by requirements on share options expensing/pension fund accounting requirements as per IFRS.

IFRS no longer allowed management to obscure earnings volatility and other risks underlying the business and they are forced to disclose the elements that affect the entities performance to the market.

Further reading

Ineum Consulting, a French consultancy company, has prepared a Report "Evaluation of the Application of IFRS in the 2006 financial Statements of EU Companies" at the request of, and with funding from, the Directorate General for Internal Market and Services of the Commission of the European Communities (the "Commission"). This Report comprises two separate documents - an Executive Summary and a Detailed Report that together represent the Report as a whole. Readers are advised to refer to the Report as a whole in order to obtain a complete understanding of the contents included and the methodology used.

IFRS Convergence Project in India – Current Status

Following is a brief description of the work being done by various agencies to achieve convergence with IFRS by April 1st 2011.

Institute of Chartered Accountants of India (ICAI)

ICAI will formulate and issue Accounting Standards that are compliant with IFRS issued by IASB. Currently, ICAI has a website dedicated to IFRS wherein the current status of various standards issued by Accounting Standard Board to comply with IFRS is available (http://ifrs.icai.org/#). ICAI has clarified that all Accounting Standards will be issued well before the deadline of April 1st 2011. However, initially only listed companies and companies who have exposure to debt etc are required to comply with these standards – top 150 companies may have to achieve the convergence by the deadline of 1st April 2011. IASB has already issued a more convenient "user friendly" set of standards as applicable to Small and Medium Enterprises and ICAI is yet to take a position on how this will be made applicable in India.

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Ministry of Corporate Affairs, Government of India (MCA)

MCA has appointed two High Power Committees to advise them on ensuring that convergence is achieved by the deadline of April 1st 2011. The Core Group has issued its report on the roadmap for achieving convergence by April 2011 in January 2010. As per a press report issued by Bloomberg UTV, the report recommends that companies with net worth of Rs 1000 crore, Nifty 50 and Sensex 30 companies should file IFRS accounts in 2011-12. Companies with net worth of Rs 500 crore and all listed companies should file IFRS accounts in 2013-14.Core group members, who spoke to Bloomberg UTV on condition of anonymity, felt that most corporates as also the vast majority of Chartered Accountants are not adequately trained to implement IFRS on such a large scale. The Core Group has representation from all stakeholders and regulators.

Other Regulators

SEBI, (the regulator of capital markets in India) has issued a discussion paper on early adoption of IFRS for consolidated statements of companies whose overseas subsidiaries constitute 50% or more of the business.

Other regulators who need to respond to ICAI in respect of changes to be brought about in current rules governing preparation and presentation of Financial Statements include Reserve Bank of India for banking entities, Insurance Regulatory & Development Authority for insurance companies. So far, issues relating to corporate taxation have not been addressed in the Direct Tax code issued by the Ministry of Finance.

Status of Implementation by various corporate entities

Infosys Ltd has already adopted IFRS and has issued CFS for their recent quarterly report in January 2010. However, according to a newly released survey by Resources Global Professionals India, only 27 per cent of blue chip foreign and Indian multi-national corporations say that they are prepared for the conversion to the new IFRS. Moreover, nearly 60 per cent report that critical milestones and success factors for a clean and cost-effective conversion have either been overlooked or are not properly understood. The survey was conducted in spring/summer 2009.

Participants included top-level finance executives at large Indian and India-based foreign multinational companies. 40 per cent of respondents were US-listed companies, 27 per cent were India-listed, 18 per cent were unlisted, and 12 per cent were listed on exchanges in the US and elsewhere.

Impact

IFRS is an extension of the Globalization theme and an inevitable transition and companies have to ensure that their systems are suitably oriented towards embracing these standards in India. The benefits of adopting IFRS far outweigh the initial discomfort and there cannot be any compromise on the application of these standards to Indian Companies. All stake holders and regulators are working to ensure this very fact and adequate communication to explain the impact of implementation is a sin qua non for the complete success of the implementation of these set of GAAP. It is expected that direct application of IFRS to entities in Real Estate and IT companies will result in earnings volatility initially. However, since India is going in for the convergence mode, the final set of standards issued by ICAI and notified by NACAS are eagerly awaited for dissection and only then will the correct impact be gauged.