COLLOQUE ACN COMPTABILITE NATIONALE DU 8 JUIN 2017 - HOW ARE IFRS PRODUCED ?

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MEMBER OF ACADEMIE DE COMPTABILITE ; MEMBER OF SFAF ACCOUNTING COMMISSION

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A TRIBUTE TO VISIONARY LORD HENRY BENSON

- 1966 HENRY BENSON ELECTED PRESIDENT OF ICAEW
- VISITED CANADA AND USA AND PROPOSED CREATION OF ACCOUNTANTS INTERNATIONAL STUDY GROUP (1967)
- AISG BEGINS TO PUBLISH DOCTRINAL PAPERS
- AISG ESTABLISHES WORKING LINKS WITH AUSTRALIA, FRANCE, GERMANY, JAPAN, MEXICO AND NETHERLANDS
- TOGETHER THEY DECIDE IN 1973 TO SET UP AN INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE, BENSON IS ELECTED FIRST CHAIRMAN
- STATED AIM OF IASC: « **TO ISSUE INTERNATIONAL STANDARDS OF REFERENCE WHICH WOULD GUIDE THE CONVERGENCE OF NATIONAL STANDARDS OVER TIME** »

FROM IASC TO IASB…A STRATEGIC TURN

- **1973-1982: pioneering efforts towards harmonization**
  - IASC created in 1973 by accounting profession; First meeting 29 June in London
  - IAS 1 adopted in 1975
  - Compare existing practices; Eliminate the more exotic methods – many options kept
  - Most difficult subjects not addressed (e.g. financial instruments, pensions…)
  - Few companies really used IAS for reporting
- **1982-2000: Getting momentum and improving quality of standards**
  - Benchmarking phase, elimination of some options
  - 1990’s: Established working links with FASB ; IOSCO and European Commission
  - More difficult standards adopted (IAS 17:1982 ; IAS 19:1985; IAS 39:1998..)
  - 1995: IOSCO says improvements in standards and governance were needed to obtain its endorsement for cross-border listings
  - 1995-2000: IAS improvements program ➔ IOSCO recognition in Sydney,2000
  - IAS still used on a voluntary basis only, although internationally recommended. Many non American companies in EU and elsewhere reported under US GAAP

FROM IASC TO IASB…A STRATEGIC TURN

- **2000 -2016: Political recognition and real impact**
  - 1999 : EU financial services action plan approved by Lisbon Summit
  - 2005 : Standards applied in the EU on a mandatory basis (EU Regulation1606/2002, Directives on Prospectus and on Transparency) ➔ other jurisdictions dragged along
  - New IASB set up with support of IFI’s and regulators – IFRS FOUNDATION Constitution adopted May 2000 – new funding system
  - 2001 : IASB begins its work ; IAS become IFRS
  - 2002 : IASB-FASB Convergence agreements (Norwalk, Ct – MOU 2006)
  - 2007 : SEC Concepts Releases re possible adoption in the USA; SEC lifts reconciliation requirement for Foreign Private Issuers
  - 2005- 2016 : Acceleration of the adoption movement worldwide (except in the USA)

http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx

S - Analysis of the IFRS j...

CURRENT ADOPTION STATISTICS AS PER IFRS FOUNDATION

The following table analyses the use of IFRS Standards in the 149 profiled jurisdictions by region of the world:

	Number of Jurisdictions				
Region	**Jurisdictions in the region**	**Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities**	**Jurisdictions that require IFRS Standards as % of total jurisdictions in the region**	**Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities**	**Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities**
Europe	43	42	98%	1	0
Africa	23	19	83%	1	3
Middle East	13	13	100%	0	0
Asia-Oceania	33	24	73%	3	6
Americas	37	27	73%	8	2
Totals	**149**	**125**	**84%**	**13**	**11**
As % of 149	**100%**	**84%**		**9%**	**7%**

The 149 profiles include all 31 member states of the European Union (EU) and the European Economic Area (EEA), where IFRS Standards are required for all companies whose securities trade in a regulated market.

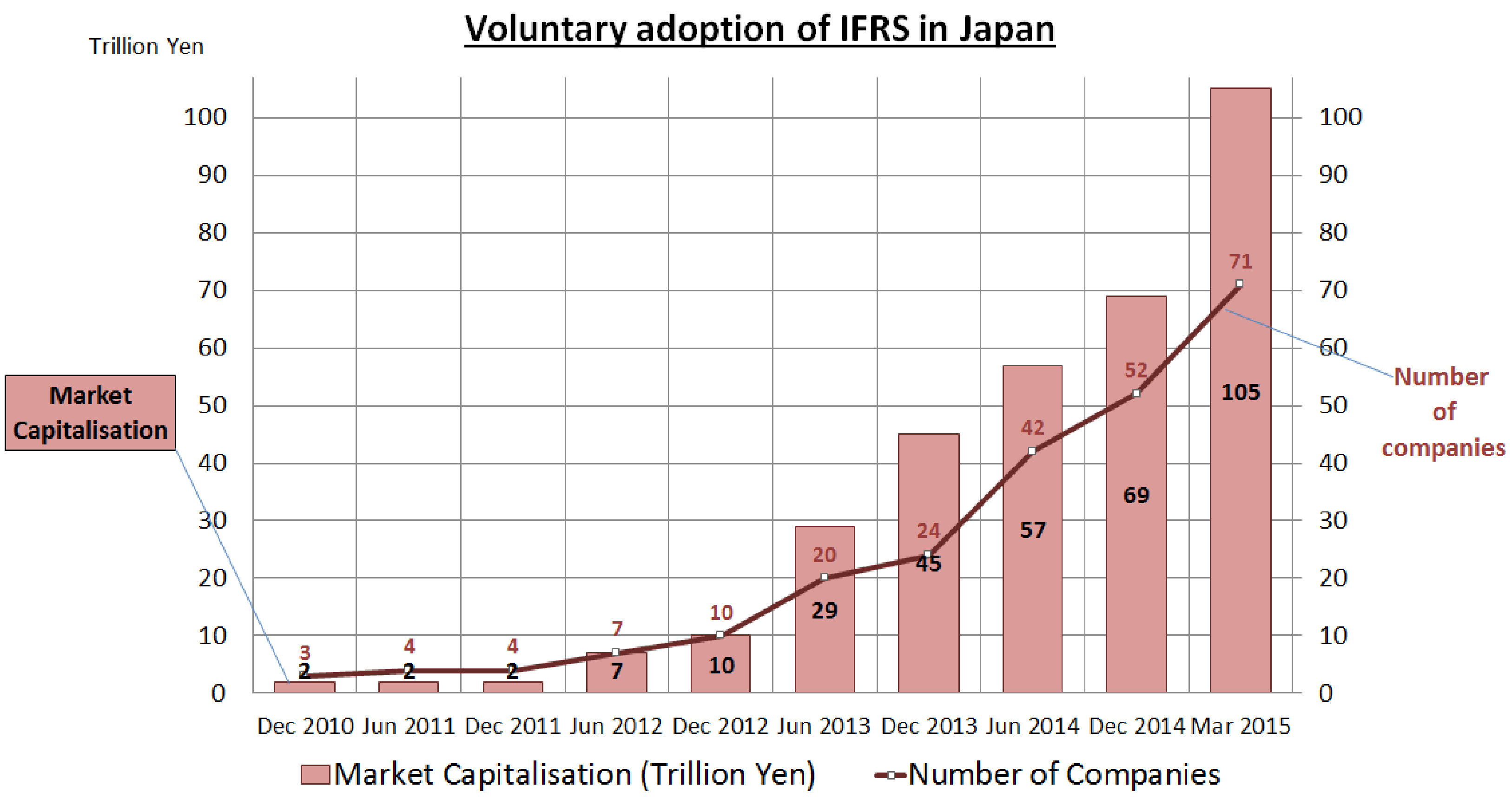
23 may 2017

The 125 jurisdictions classified as requiring IFRS Standards for all or most domestic

IFRS ECONOMIC FOOTPRINT

- The total GDP (PNB) of the 125 jurisdictions which **mandate** IFRS for at least certain types of entities amounts to US$ 40trn, about 50% of global GDP
  - The EU represent US$ 17trn;
  - Other jurisdictions account for US$ 23trn
- 57% of the listed companies in the world report in accordance with IFRS

VOLUNTARY ADOPTION IN JAPAN



CHINA

- China has already made the transition to Chinese Accounting Standards, which are very similar to IFRS.

- More than 250 Chinese companies, which represent 30 per cent of the total domestic market capitalisation in China, report using full IFRS for the purpose of their listings in Hong Kong, to attract foreign investors.

- The Hong Kong Stock Exchange allows both IFRS and Chinese Accounting Standards, however, most of the Chinese companies listed in Hong Kong are choosing IFRS for their listing in Hong Kong.

Endorsement around the world

No endorsement required	64 jurisdictions
European Union process	33 jurisdictions
Endorsement solely by professional accounting body	11 jurisdictions
Endorsement solely by government agency	15 jurisdictions
Involves both professional body and government	6 jurisdictions
IFRS not yet adopted for any domestic or foreign companies	10 jurisdictions

IFRS®

FOCUS ON THE EU REGULATION (CE)1606/2002

Whereas….

- The Lisbon European Council of 23 and 24 March 2000 emphasised the need to accelerate completion of the internal market for financial services, set the deadline of 2005 to implement the Commission's Financial Services Action Plan and urged that steps be taken to enhance the comparability of financial statements prepared by publicly traded companies.

- In order to contribute to a better functioning of the internal market, publicly traded companies must be required to apply a single set of high quality international accounting standards for the preparation of their consolidated financial statements. **Furthermore, it is important that the financial reporting standards applied by Community companies participating in financial markets are accepted internationally and are truly global standards. This implies an increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards**

EU REGULATION (CE)1606/2002

- Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts , Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions and Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance companies are also addressed to publicly traded Community companies. **The reporting requirements set out in these Directives cannot ensure the high level of transparency and comparability of financial reporting from all publicly traded Community companies which is a necessary condition for building an integrated capital market which operates effectively, smoothly and efficiently.** It is therefore necessary to supplement the legal framework applicable to publicly traded companies.
- This Regulation aims at contributing to the efficient and cost-effective functioning of the capital market. The protection of investors and the maintenance of confidence in the financial markets is also an important aspect of the completion of the internal market in this area. This Regulation reinforces the freedom of movement of capital in the internal market and helps to enable Community companies to compete on an equal footing for financial resources available in the Community capital markets, as well as in world capital markets.
- **It is important for the competitiveness of Community capital markets to achieve convergence of the standards used in Europe for preparing financial statements, with international accounting standards that can be used globally, for cross-border transactions or listing anywhere in the world.**

EU REGULATION (CE)1606/2002

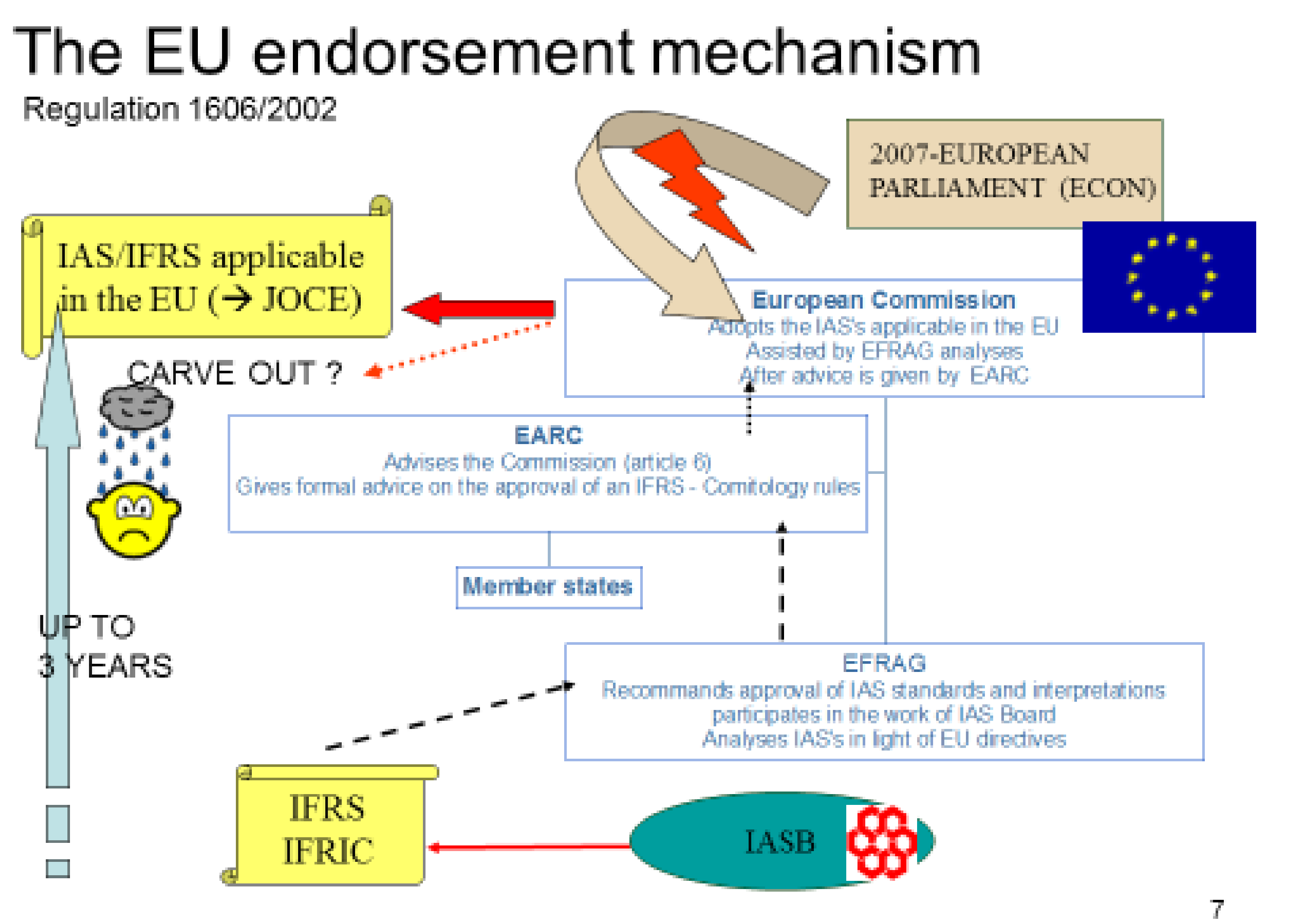
- To adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its **application results in a true and fair view of the financial position and performance of an enterprise — this principle being considered in the light of the said Council Directives without implying a strict conformity** with each and every provision of those Directives; secondly that, in accordance with the conclusions of the Council of 17 July 2000, **it is conducive to the European public good** and lastly that it meets basic criteria as to the quality of information required for financial statements to be useful to users.
- An accounting technical committee should provide support and expertise to the Commission in the assessment of international accounting standards.

MINIMUM SCOPE OF THE REGULATION AND OPTIONS

For each financial year starting on or after 1 January 2005, companies governed by the law of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) if, at their balance sheet date, their **securities are admitted to trading on a regulated market of any Member State** within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10
May 1993 on investment services in the securities field (1).

In accordance with the same principle [of proportionality] , it is necessary, as regards annual accounts, to **leave to Member States the option to permit or require** publicly traded companies to prepare them in conformity with international accounting standards adopted in accordance with the procedure laid down in this Regulation. Member States may decide as well to extend this permission or this requirement to other companies as regards the preparation of their consolidated accounts and/or their annual accounts.

HOW TEXTS PUBLISHED BY IASB BECOME COMPANY LAW IN EU



2015 ASSESSMENT BY THE EUROPEAN COMMISSION

- Overall positive effects
- IFRS are still perfectible ; but no appetite for a radical change to the 2002 decisions
- EU wants to have a bigger say in the international standard setting
  - Maystadt Report "Should IFRS standards be more European?"
  - Reform of EFRAG, the EU advisory body
  - EFRAG should assess more precisely the IFRS against non technical endorsement criteria such as :"not contrary to the European public good"

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0301&from=EN

https://www.youtube.com/watch?feature=player_embedded&v=FaERn680AR8

INDEPENDENT SUMMARY OF THE CONSULTATION (PROFESSOR CHRIS NOBES, 25/01/2015*)

Basedon 200 submissions of which 90% were deemed usable. Based on the180 submissions analysed, the overall assessment of the IFRS regime in the EU is:

- Enthousiastic : 45%
- Overall positive : 48%
- Neutral : 1,7%
- Négative : 1,7%
- Very negative : 3,6%

93%

5,3%

Un material number of respondents noted their wish to extend the application of IFRS to either :

- Unconsolidated financial statements of all companies
- A company (rather than national)option to use IFRS in individual accounts of listed companies

(*) http://www.pwc.com/gx/en/audit-services/corporate-reporting/publications/world-watch/articles/eu-committed-ifrs.jhtml

NEW EFRAG CREATED AT END OF 2015

Mission statement

EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission on whether newly issued or revised IFRS meet the criteria in the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.

EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process and in providing our endorsement advice. Our legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly and consistently, and be recognised as the European Voice in financial reporting.

WHERE ARE THE USA?

2000-2007 : good progress towards adoption of IFRS in the USA

- April 2005 – SEC Roadmap "A securities regulator looks at convergence" by Don Nicolaisen, Chief Accountant

http://www.sec.gov/news/speech/spch040605dtn.htm

- April 2007 – political summit UE-US
- Summer 2007- two proposals tabled by the SEC (proposed release; concept release)

➔ 15/11/2007 – SEC release # 8879

FPI's which report under IFRS (as published by IASB, without any modification) no longer required to reconcile with US GAAP when preparing form 20-F

http://www.sec.gov/rules/final/2007/33-8879.pdf

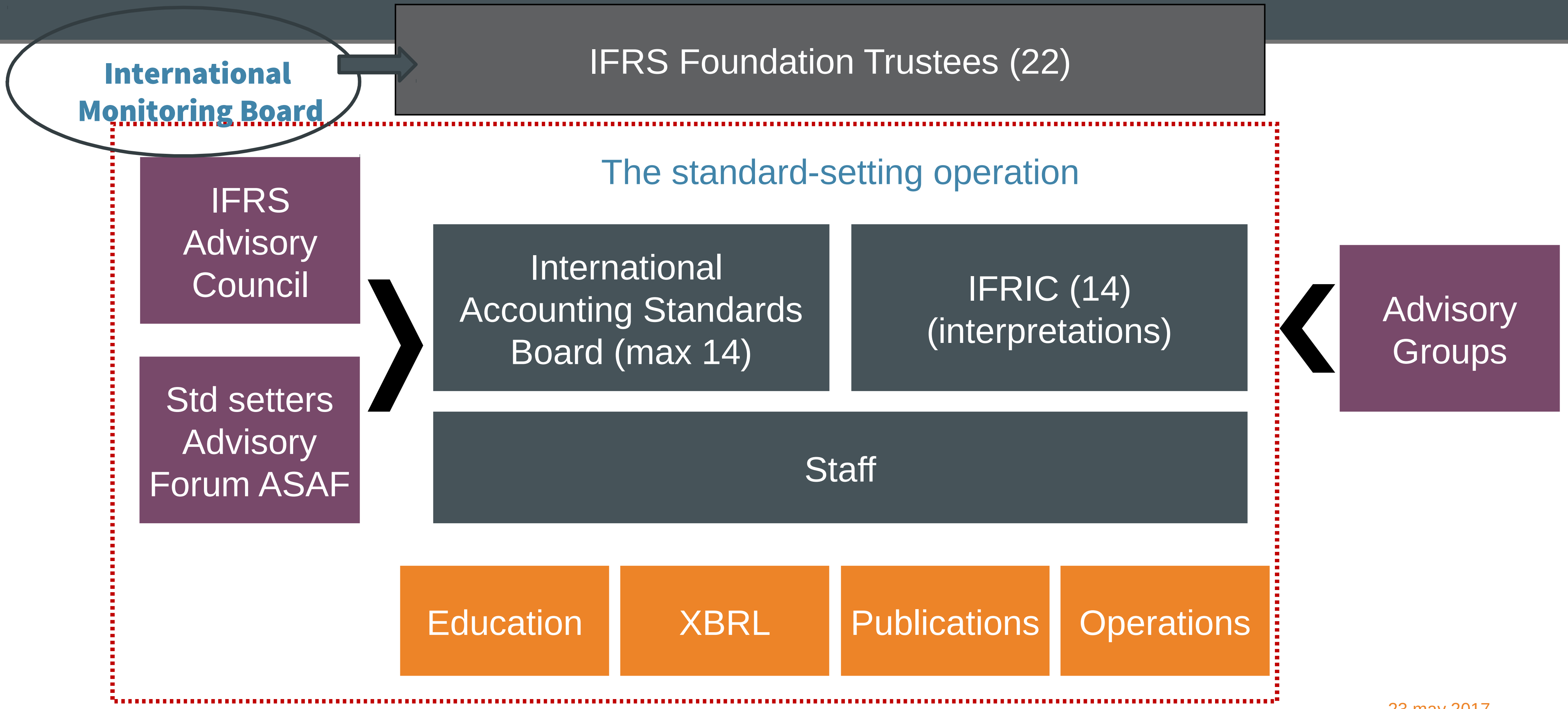
HOW DOES THE STANDARD SETTING SYSTEM WORK?

IFRS FOUNDATION “MISSION STATEMENT”

“Financial reporting standards for the world economy:

Our mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.”

PRIVATE ORGANIZATION, PUBLIC INTEREST MISSION



THE MONITORING BOARD

The Monitoring Board was created in January 2009 with the aim of providing a formal link between the Trustees and public authorities in order to enhance the public accountability of the IFRS Foundation.

The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IFRS Foundation Constitution, as well as approving the appointment or reappointment of Trustees. The Monitoring Board meets the Trustees at least once a year, or more often if appropriate

The current members of the Monitoring Board are representatives of the Board and the Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO), the European Commission (EC), Financial Services Agency of Japan (JFSA), US Securities and Exchange Commission (SEC), Brazilian Securities Commission (CVM), and Financial Services Commission of Korea (FSC). The Basel Committee on Banking Supervision participates in the Monitoring Board

http://www.iosco.org/about/?subsection=monitoring_boardas an observer”

THE TRUSTEES

- The Trustees of the IFRS Foundation are responsible for the governance and oversight of the International Accounting Standards Board (the Board). The Trustees are not involved in any technical matters relating to the Standards. This responsibility rests solely with the Board.
- The Trustees are accountable to the Monitoring Board, a body of publicly accountable markets authorities.
- Trustees are appointed for a renewable term of three years. Each Trustee is expected to have an understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality global accounting standards for use in the world's capital markets and by other users.
- Six of the Trustees must be selected from the Asia/Oceania region, six from Europe, six from North America, one from Africa, one from South America and two from the rest of the world.

THE IASB

- Makes standard setting decisions
- Assisted by a technical staff of approx. 50
- Responsible for setting the agenda of work after careful consultation
- Responsible for organizing consultation procedures (Due Process Handbook)
- Size of Board has varied over time, from 12 to 16 and will go back to a maximum of 14 (currently 11 members in office after I stepped down)
- 3 open positions + need to replace soon-to-leave members (2)
- Geographical and professional background distribution

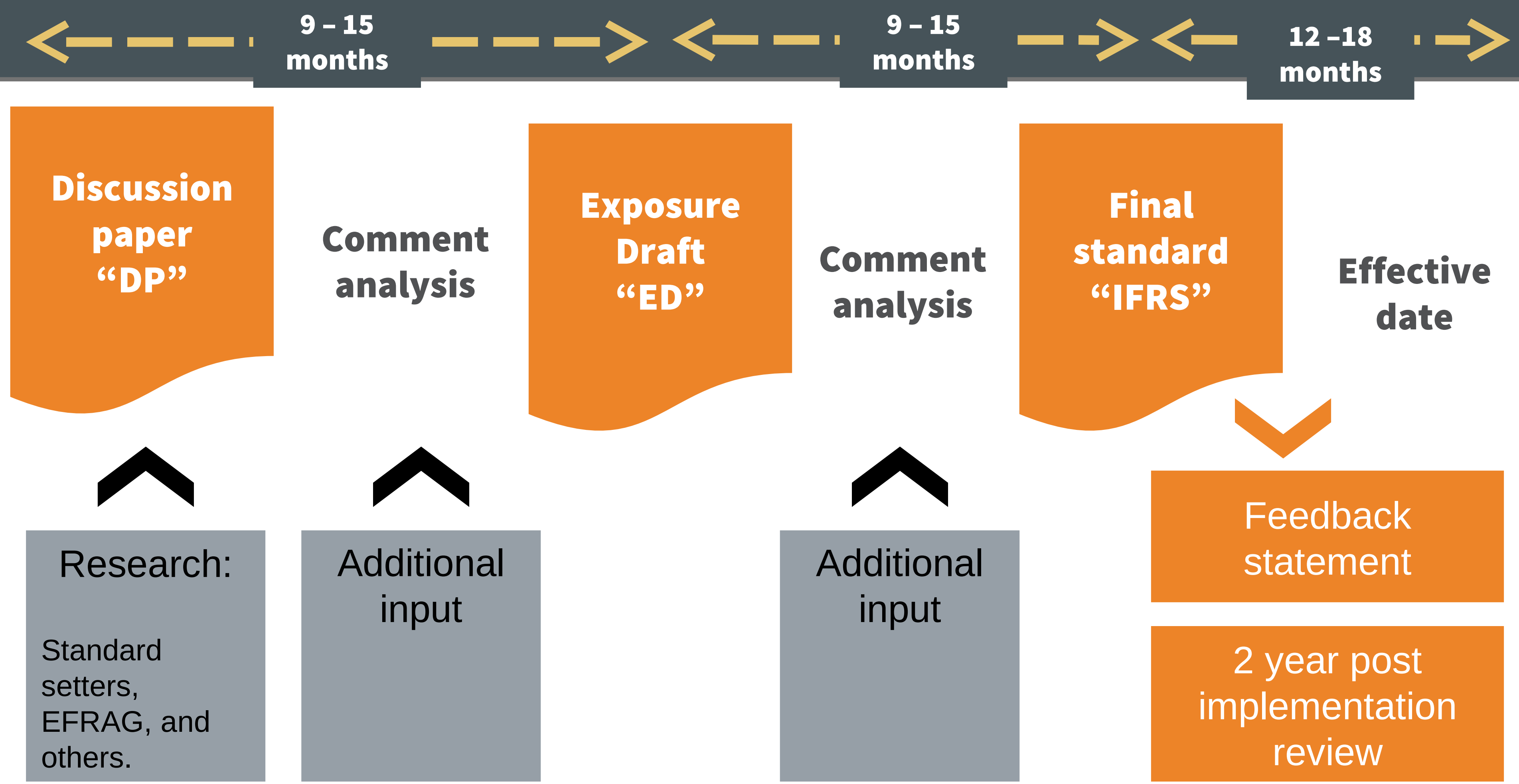
THE IASB

"The International Accounting Standards Board (IASB) is an independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Broad geographical diversity is also required".

Proposed new geographical balance (as per Trustees proposal for a new Constitution)

Geographical zone	Number of IASB members
Asia/ Oceania	4
Europe	4
The Americas	4
Africa	1
"at large " (when Board comprises 14 members)	1

IFRS CONSULTATION PROCESS



MAJOR TECHNICAL ACHIEVEMENTS

- 2001-2005: PREPARING FOR AN EXTENDED APPLICATION
  - CARRY OVER OF IAS 1 TO 41
  - IFRS 1 – FIRST APPLICATION OF IFRS
  - IFRS 2 – STOCK OPTIONS (CONVERGED WITH US GAAP)
  - IFRS 3 – BUSINESS COMBINATIONS (replacement of IAS 22)
  - IFRS 4 & 6 – INTERIM STANDARDS ON INSURANCE AND EXTRACTIVE INDUSTRIES

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THE FINANCIAL CRISIS HIGHLIGHTED A FEW WEAKNESSES

- In 2009, the G20 published a report - Declaration on Strengthening the Financial System – assessing the progress against each of the 47 actions set out in the Washington Action Plan that formed part of their commitment to reform the financial sector. The progress report included a range of reforms to be undertaken by regulators, credit rating agencies and standard-setters. The G20 called on the standard-setters to work with others to improve standards on valuation and provisioning and achieve a single set of high quality global accounting standards.
- At subsequent summits in Pittsburgh (2009), Toronto (2010), Seoul (2010) and Cannes (2011) the G20 leaders reaffirmed their support for a single set of global accounting standards and for the completion of convergence of international and US accounting standards in pursuit of that objective.

MAJOR ACHIEVEMENTS 2009-2017

- **RESPONDING TO THE FINANCIAL CRISIS**
  - IFRS 7 – DISCLOSURES ON FINANCIAL INSTRUMENTS
  - IFRS 10, 11 ET 12 – “PACKAGE” CONSOLIDATION & INFORMATION
  - IFRS 13 – APPLYING THE FAIR VALUE CONCEPT
  - IFRS 9 – FINANCIAL INSTRUMENTS
  - IFRS 17 – INSURANCE CONTRACTS
- **CONVERGENCE OF GLOBAL STANDARDS - COOPERATION WITH FASB**
  - IFRS 3(REVISED) – BUSINESS COMBINATIONS
  - IFRS 5 –DISCONTINUED OPERATIONS
  - IFRS 8 – SEGMENT REPORTING
  - IFRS 15 –REVENUE FROM CONTRACTS
  - IFRS 16 - LEASES

2015 CONSULTATION ON THE AGENDA FOR 2017-2021

- Received 119 comment letters; discussed in 30+ forums
- KEY MESSAGES RECEIVED
  - Focus on finishing Insurance contracts and Conceptual Framework !
  - Period of calm !
  - Focus on implementation activities, rather than standards-level projects. Important implementation activities include:
  - Provide implementation support for new and recently-issued Standards;
  - Increase maintenance activities and post-implementation reviews.
  - Most respondents support an evidence-based approach

KEY MESSAGES RECEIVED

Many respondents requested a stable platform:

- because change is a burden on all, especially small entities;
- to enable preparers to develop and enhance their reporting processes and systems;
- to allow stakeholders to implement new Standards.
- The level of change that will be required to implement IFRS 9 Financial Instruments, IFRS 15 Revenue from Contract with Customers and IFRS 16 Leases will be considerable
- Limitations on stakeholders’ capacity for change is a key constraint on the Board’s activities including ‘outreach fatigue’

HISTORIQUE DU PROJET CONTRATS DE LOCATION

- IAS 17 publié par l’IASC en 1982 : imposait la comptabilisation au bilan lorsque les conditions du contrat étaient, au plan économique, similaires à un achat ➔ finance (capital) leases / locations financieres
  - Tous les autres contrats de location, dits operating leases, restaient hors bilan (mais information à fournir en annexe sur les montants à payer au titre des engagements)
  - Distinction arbitraire entre type de contrats : il n’y a pas de frontière économique claire entre location financière et location simple
- 2005: la U.S. SEC, reprenant les critiques de nombreux investisseurs et des agences de notation, fait part de ses inquiètudes sur le manque de transparence du traitement comptable des operating leases
- 2006: en réponse, l’IASB et le FASB lancent un projet pour améliorer la comptabilisation de ces contrats

HISTORIQUE DU PROJET CONTRATS DE LOCATION

(proposaient de modifier en paralléle la comptabilisation chez le bailleur et le locataire)

- Dates – clé:
  - 2009 : Discussion Paper (appel à commentaires: traitait uniquement la comptabilité chez le locataire)
  - 2010 : Exposure Draft
  - 2013 : Revised Exposure Draft
  - **13 janvier 2016: publication d'IFRS 16 (FASB a publié son ASU 2016 le 25/02/2016)**
    - modifie uniquement la comptabilisation chez le locataire
    - annule et remplace IAS 17 et IFRIC 4
  - **1er janvier 2019: date d'effet de la norme (application anticipée autorisée, en combinaison avec IFRS 15)**
  - Endossement par la Commission européenne en cours
- Une consultation très approfondie
  - Plus de 1700 lettres de commentaires analysées, plusieurs centaines de réunions avec analystes, investisseurs, entreprises, régulateurs, normalisateurs comptables et firmes d'audit, 15 tables-rondes publiques pour discuter le projet.
  - 40 “fieldwork meetings” avec entreprises pour discuter les coûts de mise en oeuvre

POURQUOI UNE NOUVELLE NORME ?

- IAS 17 était très critiquée pour sa distinction arbitraire entre locations financières et locations opérationnelles
- Les sociétés cotées utilisant les IFRS ou US GAAP font état de 3000 milliards de US$ d'engagements de location, dont 85% non inscrits au passif (étude sur 30000 sociétés cotées)
  - Soit une sous évaluation de la dette allant de 22% (Amérique du Nord) à 45% (Amérique latine) pour un échantillon de 1022 sociétés qui faisaient état de >300 M $ d'engagements chacune
  - L'étude de sociétés de distribution ayant connu une faillite montre que la dette hors bilan représentait jusqu'à 66 fois la dette comptabilisée

POURQUOI UNE NOUVELLE NORME ?

- Manque de visibilité sur la situation d'endettement réelle et les actifs utilisés pour les opérations
- Manque de comparabilité entre sociétés (y compris au sein de secteurs homogènes – cf. transport aérien)
  - Ratios d'endettement, de couverture, de retour sur capitaux engagés…
- Les agences de notation et les analystes / investisseurs sophistiqués retraitaient les comptes publiés (parfois de façon assez grossière et exagèrée)

➔De plus en plus de sociétés intégraient cette dette de loyer dans leur communication financière avec les investisseurs


individual comments
expressions of individual views
questions
feedback
expressions of individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
questions or individual comments
expressions and viewpoints