


# 6<sup>th</sup> Tokyo Roundtable on Capital Market Reform in Asia The Asian Bankers' Association study on the convergence of accounting standards\*

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PRICEWATERHOUSECOOPERS 

# Introduction: IFRS— so what is it?

## IFRS — so what is it?

- International Financial Reporting Standards (IFRS, formerly called International Accounting Standards or IAS)
- Issued by the International Accounting Standards Board (IASB)



## IFRS — so what is it?

- One GAAP to rule them all
- Applies to consolidated financial statements of listed companies in the European Union (ca. 7,000 companies — 2,700 in UK)



## Introduction

# IFRS — so what is it?

- Will apply in full in many countries outside of Europe (e.g., Australia, New Zealand)
- Possibility of convergence with US GAAP



## IFRS — so what is it?

- Almost 3,000 pages of standards, issue of volume
- Some aspects are very technical, much increased use of fair values, more detailed disclosures



# The Asian Bankers' Association study on the convergence of accounting standards

The Asian Bankers' Association study  
on the convergence of accounting standards

Issues leading to convergence with IFRS

Status of convergence

Proposed action plan

# Issues leading to convergence with IFRS

## Issues

- Investors' decisions made based on global opportunities.
- Additional costs involved in preparation of financial information based on multiple reporting models in order to raise capital in different markets.
- Free and open trade and investment not fully attainable without a common accounting framework.

# Status of convergence

## GAAP Convergence 2002

- A survey of National Efforts to promote and achieve convergence with International Financial Reporting Standards.
- Conducted by large accounting firms: BOD; Deloitte Touche Tohmatsu; Ernst & Young; Grant Thornton; KPMG; and PricewaterhouseCoopers.
- 59 countries covered in the survey.
- 18 out of the 21 APEC member countries participated in this survey.

Status of convergence

## GAAP Convergence 2002 results —attitude towards convergence with IFRS

Attitude	Global APEC	
	%	%
Plans to adopt/converge	92	94
No current intention	5	6
Has already adopted	3	-

- Overwhelming majority of countries surveyed intend to converge.

Status of convergence

## GAAP Convergence 2002 results —convergence strategies

Strategies	Global APEC	
	%	%
Governmental/other regulatory requirements	57	22
Formal plan by the accounting standard-setting body	15	33
Other strategies	28	45

## Status of convergence

### GAAP Convergence 2002 results —convergence impediments

Impediments	Global APEC	
	%	%
Complicated nature of particular IFRSs	57	50
Tax-driven nature of domestic accounting standards	47	11
Disagreement with certain significant IFRSs	39	44
Insufficient guidance on the first-time application of IFRS	35	33
Limited capital markets	30	17
Satisfaction with domestic accounting standards among investors/users	21	28
Linguistic translation difficulties	18	17

Status of convergence

## GAAP Convergence 2002 results —distribution of impediments per APEC member

APEC member country/countries	Number of impediments
Thailand	7
Russia	4
Japan, Peru, Philippines, South Korea	3
Chile, Indochina, Malaysia	2
Australia, China, Hong Kong	1
Mexico, New Zealand, Singapore, Taiwan, United States	0

# Proposed action plan

## Significance of APEC's role in convergence

- APEC members constitute the majority in the liaison domestic standard-setters of the IASB.
- Biggest hurdle facing global convergence involves the two most influential members of APEC – United States and Japan.
- The capital market-oriented IFRS has yet to be accepted in the biggest capital markets in APEC – United States and Japan.

## Significance of APEC's role in convergence

- Canada, also APEC member, is one of few economies in the world that have fully completed the convergence of its domestic accounting standards with IFRS.
- Australia, also APEC member, recently announced its convergence strategy.

Proposed action plan

## Proposed action plan



- Formulate APEC-wide convergence policy statement.
  - To provide further encouragement to APEC members which have not yet publicly-expressed any convergence intention to reconsider their position.
  - Set a symbolic target year for the attainment of full convergence within APEC (e.g., 2005 convergence target of the European Union).

Proposed action plan

## Proposed action plan



- Establish a collaborative initiative on APEC-wide convergence.
  - Document the domestic convergence plan of each APEC member.
  - Propose an APEC-wide convergence plan.
  - Identify and prepare an inventory of the available convergence resources with APEC.
  - Identify how resources can be optimally used to address impediments and to attain completion of the convergence plan.
  - Monitor and report progress of domestic, as well as the APEC-wide convergence plan.

Proposed action plan

## Proposed action plan



- Identify funding mechanism.
  - Financial assistance can enhance ability of APEC members in addressing impediments concerning clarification of issues.
    - Publish IFRS literature in domestic language, information dissemination campaigns;
    - Sponsor research work to clarify certain complex aspects of IFRS;
    - Conduct studies to resolve concerns on the theoretical strength of certain IFRS provisions; and
    - Possible re-alignment of taxation policies.

Proposed action plan

## Proposed action plan



- Compile national convergence plan status reports.
  - This will be the first major task of the Collaborative Initiative.
  - Countries not previously covered in the GAAP Convergence 2002 survey should be covered.

Proposed action plan

## Proposed action plan



- Establish an APEC-wide convergence plan.
  - Preliminary target year of full convergence to be aligned with domestic convergence timetable.
- Identify convergence resources within APEC.
  - Domestic experience.
  - Technical expertise and literature.
  - Financial resources.
- Resolve convergence impediments.

# Thank you.