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Transparency and Disclosure

Kazakhstan

Comparison:
International Accounting Standards (IAS)
and Kazakhstan Accounting Standards (KAS)

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COMPARISON: INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND KAZAKHSTAN ACCOUNTING STANDARDS (KAS)

In order to rate the compliance of Kazakhstan Accounting Standards (KAS) with International Accounting Standards (IAS), this report first determines whether there is a KAS that is analogous to an IAS. This information appears in columns A and B of the table on the following pages.

The degree of compliance of KAS with IAS is estimated in column C of the table. This report applies a numerical scale in order to estimate the degree of compliance. It is assumed that each IAS addresses a materially important part of a company's financial statements. (Of course, in cases where the financial information addressed by a standard is immaterial to the company's financial statements, the company does not need to apply any accounting standard at all.) The numbers in column C have the following significance:

1 (Major noncompliance:) There is a strong possibility that financial statements that are in full compliance with KAS would not be in full compliance with IAS.

2 (Moderate noncompliance:) There is a moderate possibility that financial statements that are in full compliance with KAS would not be in full compliance with IAS.

3 (Minor noncompliance:) There is a slight possibility that financial statements that are in full compliance with KAS would not be in full compliance with IAS.

4 (Full compliance [i.e. conformity]): There is virtually no possibility that financial statements that are in full compliance with KAS would not be in full compliance with IAS.

This numerical system is inherently subjective; nonetheless, it is supported by illustrative situations in which financial statements that fully comply with KAS do not comply with IAS. For each KAS, three illustrative deviations of KAS from IAS are provided. (Although there are innumerable potential deviations of KAS from IAS, in the interest of saving time and space only three illustrative deviations are presented for each KAS that is analogous to an IAS.) Such illustrations of such deviations appear in column D of the table. The six KAS that do not correspond to any IAS are briefly analyzed at the end of the table. Obviously one cannot estimate the degree of such standards' compliance to IAS.

A summary of the analysis is provided in the following table, which uses IAS as a reference point:

Degree of compliance of KAS with each IAS	*# standards in category*	*Specific IAS in each category*
1 - *(Major noncompliance)*	***19***	***1, 7, 14, 15, 16, 17, 19, 20, 21, 22, 23, 29, 32, 33, 34, 35, 36, 37, 39***
2 - *(Moderate noncompliance)*	***5***	***12, 18, 26, 27, Framework***
3 - *(Minor noncompliance)*	***9***	***2, 4, 8, 11, 24, 25, 28, 30, 31***
4 - *(Complete, or nearly complete, compliance)*	***0***	***-***
Average compliance rating (scale of 1 to 4): 1.7		
Unknown (translation not publicly available)[1]	2	***10, 38***

The lack of compliance of KAS with IAS creates barriers to Kazakhstan's economic development. This problem has little chance of being resolved until Kazakhstan's standard-setting authority – the Ministry of Finance (MoF) – implements a policy of adopting

[1] The Ministry of Finance has not translated the most recently adopted standards in to English and appears unlikely to do so in the near future. This analysis assumes that despite the critically important needs of local users of financial statements, foreign users are not irrelevant. The translations of previous KAS into English were performed primarily by international donor agencies, but the donors do not plan to expend resources on translating new standards that do not fully comply with IAS.

national accounting standards that fully conform to international standards. Some individuals point to the fact that the US has not done so as an argument that IAS must not be progressive. An analysis explaining the weaknesses of this argument appears after the end of the following table.

COMPARISON: INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND KAZAKHSTAN ACCOUNTING STANDARDS (KAS)

A	B	C	D
IAS	***Corresponding KAS (if any)***	***Compliance KAS v. IAS***	***Illustrative Deviations of KAS from IAS***
1. Presentation of Financial Statements	***1. Accounting Policy and Its Disclosure 2. Balance Sheet and Main Financial Statement Disclosures***	***1***	• ***Financial statements that are prepared at the initiative of a shareholder or creditor may be entirely exempt from KAS 1. No such exemption is permitted by IAS 1. KAS 1&2 do not require disclosure of whether the financial statements cover just one or a group of enterprises. IAS 1 requires this disclosure.*** • ***KAS 1&2 do not require aggregation of immaterial items; this may obscure material items. IAS 1 promotes aggregation of similar immaterial items. KAS 1&2 do not prohibit offsetting of long-term assets and long-term liabilities. IAS 1 prohibits such offsetting except in specified circumstances.*** • ***KAS 1&2 do not describe what kind of preceding-period (comparative) information is required. IAS 1 requires properly classified comparative information unless other standards permit otherwise.*** • ***Many other differences exist.***
2. Inventories	***7. Accounting for Inventories Note: KAS 7 explicitly excepts banks from its scope of application.***	***3***	• ***KAS 7 requires that upon sale of inventory, its cost amount be recorded as an expense. IAS 2 requires that the carrying amount be recorded as an expense. If the carrying amount had been reduced to net realizable value, KAS 7 results in overstatement of expenses, understatement of inventory, and understatement of income.*** • ***KAS 7 requires disclosure only of the components of inventory, but not its total carrying amount. IAS 2 requires disclosure of the total carrying amount of inventory.*** • ***KAS 7 does not require disclosure of the cost of inventory recorded as an expense but not sold (eg through write-down to NRV). IAS 2 requires disclosure of the cost of inventory recorded as an expense.*** • ***Many other differences exist.***

COMPARISON: INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND KAZAKHSTAN ACCOUNTING STANDARDS (KAS)

A *IAS*	*B* *Corresponding KAS (if any)*	*C* *Compliance KAS v. IAS*	*D* *Illustrative Deviations of KAS from IAS*
4[2]. Depreciation accounting	*(Included in:) 6. Accounting for Fixed Assets*	*3*	• *KAS 6, unlike IAS 4, gives no definition of "depreciable assets." KAS 6 does not prohibit depreciation of land (although a Methodological Recommendation strongly discourages it). IAS 4 permits depreciation only of assets that have a limited useful life.* • *IAS 4 allows depreciation to be charged either directly to the expenses of an entity, or indirectly by means of allocation to the cost of inventory produced through the wear and tear of a long-term asset – whichever is more appropriate. KAS 6 requires that depreciation be charged directly to the expenses of an entity, even if doing so would overstate expenses and understate income of the entity.* • *KAS 6 defines "useful life" in a way that is inconsistent with the "units of production" method of depreciation. IAS 4 definitions are consistent with the various methods of depreciation.* • *Many other differences exist.*
7. Cash flow statements	*4. Cash Flow Statements* *Note: KAS 4 explicitly excepts banks from its scope of application*	*1*	• *KAS 4 excludes from the definition of "cash" all forms of demand deposits. IAS 7 includes such deposits. KAS 4 also ignores altogether the existence of cash equivalents, and excludes them from the requirements of cash flow statements. IAS 7 includes cash equivalents as an essential component of cash flow statements.* • *KAS 4 gives no guidance on how to account for and report the cash flows of a foreign subsidiary. IAS 7 gives appropriate guidance.* • *KAS 4 requires that foreign currency cash flows be recorded at the exchange rate determined by the National Bank of Kazakhstan regardless of whether such a rate exists and regardless of whether the transaction occurred at approximately that rate. IAS 7 requires use of the exchange rate of the transaction, or an approximation of that rate.* • *Many other differences exist.*

[2] IAS 3, 5, 6, 9, and 13 have been superseded by other IAS in this table.

A	*B*	*C*	*D*
IAS	***Corresponding KAS (if any)***	***Compliance KAS v. IAS***	***Illustrative Deviations of KAS from IAS***
8. Net profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	***3. Statement of Operations*** ***Note: KAS 3 explicitly excepts banks from its scope of application***	***3***	• ***IAS 8 provides specific guidance on how to account for the effect of initial adoption of an accounting standard -- an issue that affects every enterprise, and the effect of which can be enormous in the CIS. KAS 3 provides no such guidance, and therefore permits any approach that best suits the desire of the preparer of financial statements even if the approach is misleading.*** • ***KAS 3 does not give any definition of ordinary activities, and thereby allows entities to use excessive discretion in determining whether the KAS 3 applies to a particular activity. IAS 8 clearly defines this important item.*** • ***Disclosures with respect to changes in accounting policies are vague and subject to much discretion under KAS 3. IAS 8 provides more explicit guidance and permits less variation.*** • ***Various other differences exist***
[9. Research and Development Costs] Superseded by IAS 38, Intangible Assets	***29. Accounting for Research and Development***	***NA***	***(KAS 9 prescribes the accounting for a type of asset that is incorporated into an entirely separate standard on all intangible assets generally. KAS 29 by definition does not comply with IAS.)***
10. Events Occurring After the Balance Sheet Date	***27. Contingencies and Subsequent Events***	***?***	***A translation of KAS 28 into English is not publicly available. (See footnote on page 1 of this Appendix.)***
11. Construction Contracts	***12. Accounting for Construction Contracts***	***3***	• ***In situations in which the outcome of a construction contract cannot be estimated reliably, KAS 12 does not require that any expected loss be recognized as an expense immediately, as is required in IAS 11.*** • ***In determining the stage of completion of a construction contract, KAS 12 permits only two methods, and excludes surveys of work performed as a permissible estimation method. IAS 11 recognizes that a variety of reliable methods exist and may be used.*** • ***Various other differences exist.***
12. Accounting for	***11. Accounting for***	***2***	• ***The organization, structure, and terminology of KAS 11 are completely***

A *IAS*	B *Corresponding KAS (if any)*	C *Compliance KAS v. IAS*	D *Illustrative Deviations of KAS from IAS*
Taxes on Income	*Taxes on Income*		*different from those of IAS 12.* • *KAS 11 ignores several important definitions, such as deferred tax liabilities and deferred tax assets. KAS 11 also gives no guidance on when deferred tax assets and deferred tax liabilities may be offset. IAS 12 defines these items and the conditions in which they may be offset.* • *KAS 11 does not require any disclosure of the relationship between tax expense and accounting profit. The components of this critical disclosure, and many others, are specified in IAS 12 but not KAS 11.* • *Many other differences exist.*
14. Reporting Financial Information by Segment	*None*	*1*	*Fundamental deviations due to the absence of any KAS.*
15. Information Reflecting the Effects of Changing Prices	*None*	*1*	*Fundamental deviations due to the absence of any KAS.*
16. Property, Plant, and Equipment	*6. Accounting for Fixed Assets*	*1*	• *KAS 6 gives no guidance on the circumstances in which an item of property, plant, and equipment may be recognized as an asset. IAS 16 specifies that such items may be recognized only when they are likely to result in reliably measurable future economic benefits to the enterprise.* • *KAS 6 gives no information on how to account for situations in which an asset has been impaired. IAS 16 specifies the accounting standards that must be applied in these situations.* • *KAS 6 does not incorporate the critically important concept of fair value; instead, it applies a confusing use of the term "current cost," which depends on the existence of market prices (which are unlikely to exist in Kazakhstan for most fixed assets).*

A *IAS*	*B* *Corresponding KAS (if any)*	*C* *Compliance KAS v. IAS*	*D* *Illustrative Deviations of KAS from IAS*
			• *Many other differences exist.*
17. Accounting for Leases	*17. Accounting for Leases*	*1*	• *KAS 17 fails to define several critically important terms, such as "fair value," "economic life," "guaranteed residual value," and "contingent rent." Some items in KAS 17 are defined differently from IAS 17, and others are defined less rigorously.* • *KAS 17 does not give any guidance on how to classify between finance leases and operating leases. KAS 17 does not require disclosure of: differences between minimum lease payments and present value of lease payments; description of the lessee's significant leasing arrangements; many other details. IAS 17 provides appropriate guidance and specifies the minimum disclosure required.* • *KAS 17 gives only limited guidance on accounting for leases in the financial statements of lessors.* • *Many other differences exist.*
18. Revenue	*5. Revenue*	*2*	• *IAS 18 defines revenue as "the gross inflow of economic benefits during a period...", whereas KAS 5 defines revenue as "the increase of assets or decrease of liabilities during the reporting period." The KAS definition is inappropriate in that it would define such transactions as a share emission as a revenue-generating transation – clearly a misleading accounting treatment.* • *KAS 5 defines a term "aggregate revenue" as including revenue from both ordinary and extraordinary activities. No such term exists in IAS.* • *KAS 5 gives no guidance on how to account for situations in which the fair value of consideration receivable is less than the nominal amount of the receivable. These are frequent occurrences throughout the CIS. IAS 18 gives specific guidance on how to account for such transactions.* • *Various other differences exist.*
19. Employee	*16. Accounting for*	*1*	• *KAS 16 gives no guidance on how to account for short-term employee*

A *IAS*	B *Corresponding KAS (if any)*	C *Compliance KAS v. IAS*	D *Illustrative Deviations of KAS from IAS*
Benefits	*Retirement Benefit Costs*		*benefits such as vacation leave, sick leave, and bonuses. IAS 19 provided detailed guidance on such items.* • *KAS 16 gives no guidance on how to account for non-monetary benefits such as medical care, housing, subsidized goods and services. IAS 19 provides detailed guidance on such items.* • *KAS 16 gives no guidance on how to account for termination benefits. IAS 19 provides detailed guidance on such items.* • *Many other differences exist.*
20. Accounting for Government Grants and Disclosure of Government Assistance	*None*	*1*	*Fundamental deviations due to the absence of any KAS.*
21. The Effects of Changes in Foreign Exchange Rates	*9. Foreign Currency Transactions*	*1*	• *KAS 9 ignores the important concept of fair value in transactions denominated in foreign currencies. The only exchange rate at which transactions may be recorded is that established by the National Bank of Kazakhstan, regardless of whether that rate approximates the actual rate at which the transaction occurred or even whether such a rate exists (for some foreign currencies it does not).* • *KAS 9 altogether ignores the effects of changes in foreign exchange rates on the financial statements of foreign operations. IAS 21 provides detailed guidance on how to account for such effects. KAS 9 also requires more limited disclosure than IAS 21. For example, KAS 9 does not require a reconciliation of beginning and ending balances of the amount of net exchange differences classified as equity.* • *KAS 9 give no guidance on accounting for the effect of exchange rate changes non-monetary items that are carried at fair value (such as certain fixed assets) and denominated in a foreign currency.* • *Many other differences exist.*

A	*B*	*C*	*D*
IAS	***Corresponding KAS (if any)***	***Compliance KAS v. IAS***	***Illustrative Deviations of KAS from IAS***
22. Business Combinations	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
23. Borrowing Costs	***None***	***1***	***Fundamental deviations due to the absence of any KAS.***
24. Related-Party Disclosures	***10. Related Party Disclosures***	***3***	• ***KAS 10 limits its scope of application by defining related party transactions as "transfers of assets or liabilities between related parties…," whereas IAS 24 defines related party transactions as "transfers of resources or obligations between related parties…." Many transactions requiring disclosure under IAS 24 need not be disclosed under KAS 10. If, for example, one enterprise were to provide a debt guarantee (which is an obligation but not a liability) to a director, or of another enterprise, IAS 24 would require disclosure but KAS 10 would not.*** • ***IAS 24 provides illustrative situations in which related party situations may lead to financial statement disclosures. Because KAS 10 provides no illustrative situations, Kazakhstani enterprises may not be aware that they need to disclose them in the financial statements.*** • ***The definition of "significant control" in IAS 24 illustrates various situations in which such control may be exercised. KAS 10 merely defines the term and thus permits substantial interpretation as to when such control is being exercised.*** • ***Various other differences exist.***
25. Accounting for Investments	***8. Accounting for Financial Investments***	***3***	• ***IAS 25 gives specific detailed guidance on how enterprises with significant investment activity should account for disposals and acquisitions of investments within a portfolio. KAS 8 does not provide such a detailed guidance and therefore permits opportunities for enterprises to deviate from IAS.*** • ***IAS 25 suggests additional disclosures that may assist readers' understanding of financial statements. KAS 8 gives no such guidance.*** • ***IAS 25 requires that any investments reclassified from current to long-term***

A	*B*	*C*	*D*
IAS	*Corresponding KAS (if any)*	*Compliance KAS v. IAS*	*Illustrative Deviations of KAS from IAS*
			each be valued at the lower of cost or market value (or market value if that was the original valuation method for the investment). KAS 8 does not specify how such reclassifications should be made, and therefore permits enterprises to value reclassified investments in a manner most advantageous to the enterprise even if that valuation is misleading. • *Various other differences exist*
26. Accounting and Reporting by Retirement Benefit Plans	*19. Accounting and Reporting in Non-Governmental Voluntary Pension Funds*	2	• *KAS 19 purports to guide the accounting for all non-governmental voluntary pension funds, but provides guidance for defined contribution plans only. IAS 26 also provides guidance on the accounting for defined benefit funds. In contrast, if any defined benefit plans were to appear in Kazakhstan, it would be almost impossible for such plans' financial statements to contradict KAS.* • *KAS 19 prescribes regulatory accounting requirements that are particular to the legal characteristics of Kazakhstan's accumulation pension system. These requirements are more appropriately prescribed by the relevant regulatory authority, such as the pension agency. IAS 26 addresses general-purpose accounting requirements based on the economic substance of financial events and balances. General purpose financial statements prepared according to IAS 26 may differ from regulatory-type accounting per KAS 19.* • *IAS 25 provides additional guidance on how to determine the fair value of pension fund assets. KAS 19 provides no additional guidance and therefore increases the possibility that KAS 19-compliant financial statements will value pension fund assets in a way that does not comply with IAS 25.* • *Other differences exist.*
27. Consolidated Financial Statements and Accounting for	*13. Consolidated Financial Statements and Accounting for Investments in*	2	• *KAS 13 restricts its scope by defining "control" simply as "the power to determine the financial and other policies of the partnership [sic] with the purpose of obtaining benefits from its activities." In contrast, IAS 27: specifies several qualitative characteristics of subsidiaries that should be*

A IAS	B Corresponding KAS (if any)	C Compliance KAS v. IAS	D Illustrative Deviations of KAS from IAS
Investments in Subsidiaries	*Subsidiary Partnerships*		*consolidated into the financial statements of a parent; and establishes a clear quantitative threshold for determining subsidiaries that should be consolidated.* • *IAS 27 specifies that minority interests should be presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity, and that minority interests in income should also be separately presented. KAS 13 is silent on this issue and by implication permits any presentation that the reporting entity desires.* • *Other differences exist.*
28. Accounting for Investments in Associates	*14. Accounting for Investments in Associated Partnerships*	*3*	• *KAS 14 uses only a quantitative means of determining whether an entity exercises "significant influence" over another (which is the criterion for applying the equity method of accounting with respect to the other entity). IAS 28, in making this determination, emphasizes economic reality rather than simple arithmetic; therefore IAS 28 also requires the use of five qualitative characteristics to determine whether significant influence exists. KAS 14 and IAS 28 may frequently lead to different results about whether to apply equity method accounting to an enterprise.* • *KAS 14 does not require disclosure of any differences between the investing entity's ownership interest and its proportion of voting power held. IAS 28 requires disclosure of the investing entity's voting power if different from its ownership interest.* • *KAS 14 does not require disclosure of the investing entity's contingent or sever liability to fulfil contingent liabilities and capital commitments of the associate. IAS 28 requires disclosure of such contingencies and liabilities of the investing entity on behalf of the associate.* • *Various other differences exist.*
29. Financial Reporting in Hyperinflationary	*None*	*1*	*Substantial deviations due to the absence of any KAS. (However, note: at this point it is not clear that this standard should apply to enterprises in Kazakhstan.)*

A	*B*	*C*	*D*
IAS	*Corresponding KAS (if any)*	*Compliance KAS v. IAS*	*Illustrative Deviations of KAS from IAS*
Economies			
30. Disclosures in the Financial Statements of Banks and Similar Financial Institutions	***21. Financial Statements of Banks***	*3*	• ***KAS 21 does not explain how to account for reserves for losses on loans and advances in addition to specifically identified losses plus other estimated probable losses. Neither does KAS 21 explain how to account for credits resulting from reductions of such amounts. IAS 30 specifies how such losses and credits should be accounted for.*** • ***IAS 30 requires disclosure of the nature and amount of irrevocable commitments to extend credit. KAS 21 does not require such disclosure.*** • ***IAS 30 requires disclosure of certain contingencies and commitments, including off balance sheet items, that are not required to be disclosed in KAS 21. Such contingencies and commitments include: sale and repurchase agreements that are not recognized in the balance sheet, and documentary credits where the underlying shipment is used as security.*** • ***Other differences exist.***
31. Financial Reporting of Interests in Joint Ventures	***15. Financial Reporting of Interest under Joint Activities***	*3*	• ***IAS 31 defines the essential characteristics of joint ventures and the contractual relationships that govern them. This information is critical to assist accountants in distinguishing joint ventures from certain "investments in associates" (addressed by IAS 28). KAS 15 provides no such information, and thereby greatly increases the likelihood that Kazakhstani accountants will be confused by this subject matter.*** • ***IAS 31 specifies that certain interests of venturers should be accounted for as investments. They are: interests in jointly controlled entities acquired and held for subsequent disposal in the near future; and interests in jointly controlled entities that operate under sever long-term restrictions that significantly impair the entities' ability to transfer funds to the venturer. (The latter situation is frequently found in economies with capital controls.) KAS 15 has no such requirement, and therefore permits "usual" accounting for such interests in situations where such reporting would be misleading to financial statement readers.***

A	*B*	*C*	*D*
IAS	***Corresponding KAS (if any)***	***Compliance KAS v. IAS***	***Illustrative Deviations of KAS from IAS***
			• ***IAS 31 gives specific detailed guidance on how to account for transactions between a joint venturer and the joint venture itself. KAS 15 does not give such detailed guidance and thereby gives the reporting entity opportunities to deviate from IAS 31.*** • ***Various other differences exist.***
32. Financial Instruments: Disclosures and Presentation	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
33. Earnings per Share	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
34. Interim Financial Reporting	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
35. Discontinuing Operations	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
36. Impairments of Assets	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
37. Provisions, Contingent Liabilities and Contingent Assets	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
38. Intangible Assets	***28. Accounting for Intangible Assets***	***?***	***A translation of KAS 28 into English is not publicly available. (See footnote on page 1 of this Appendix.)***
39. Financial Instruments	***None***	***1***	***Substantial deviations due to the absence of any KAS.***
Framework for the	***Conceptual Framework***		• ***Management accountability and the results of management stewardship are***

A	*B*	*C*	*D*
IAS	***Corresponding KAS (if any)***	***Compliance KAS v. IAS***	***Illustrative Deviations of KAS from IAS***
Preparation and Presentation of Financial Statements	***for the Presentation and Preparation of Financial Statements***	***2***[3]	***objectives of the IAS framework, but not the KAS framework.*** • ***KAS summarizes and oversimplifies the qualitative characteristics of financial statements. IAS emphasizes that economic substance is more important than mere legal form; KAS ignores this altogether.*** • ***The idea that assets represent probable future economic benefits is emphasized in IAS but ignored in KAS*** • ***Various other deviations exist***
KAZAKHSTAN ACCOUNTING STANDARDS THAT ARE NOT BASED ON ANY INTERNATIONAL ACCOUNTING STANDARDS			
None	***20. Accounting and Reporting in Oil and Gas Producing Companies***	***NA***	***The IASC is developing a standard on natural resource extraction, including oil and gas production. For now, the AICPA industry guide is recognized worldwide. Kazakhstan's Standard 20, though useful, is far more simple and general than the established accounting principles for this industry, and thereby permits some deviations from recognized practices.***
None	***22. Banking Income and Expenses***	***NA***	***This standard prescribes regulatory accounting treatment of industry-specific activity. Prescribing such accounting is better suited to an appropriate regulatory authority.***
None	***23. Accounting and Reporting for Small Business Enterprises***	***NA***	***This standard reflects two basic errors: (1) KAS 23 prescribes special-purpose accounting treatment in order to meet the needs of tax inspections. This role is better filled by the tax inspectorate. (2) KAS 23 attempts to distill simplified accrual accounting requirements from Kazakhstan's already oversimplified standards. It purports to reduce the accounting burden on small enterprises. Instead, it succeeds in confusing small enterprises and decreasing the quality of their financial reporting to tax inspectors and others. (Note: A far better approach would be to permit certain "small" enterprises to use cash basis accounting for the purpose of tax declaration. USAID's Accounting Reform***

[3] The Frameworks for the preparation and presentation of financial statements are not themselves standards, but guide the standard setting bodies in the development of future standards. In the case of the KAS framework, the numerical assessment in column C is an estimate of the likelihood that KAS prepared in accordance with the KAS Framework would promote substantial compliance with IAS.

A *IAS*	B *Corresponding KAS (if any)*	C *Compliance KAS v. IAS*	D *Illustrative Deviations of KAS from IAS*
			Project and Fiscal Reform Project have both proposed this approach to the Government of Kazakhstan.)
None	*24. Organization of Accounting Service*	*NA*	It is difficult to discern any need for this standard. It does not appear to comply with the objective of accounting standards generally and bears no recognizable relationship to the Framework for either IAS or KAS. It may have been a (confused) attempt to meet the documentary needs of tax inspectors. If so, it should instead have been adopted as a tax regulation rather than as an accounting standard.
None	*25. Accounting and Financial Reporting for Pension Asset Managing Companies*	*NA*	There is little or no need for this standard. It prescribes requirements of accounting for the financial statements of an entity whose principal users – the pension funds – are themselves subject to specific accounting standards (albeit inadequate ones in KAS). If tax inspectors have specific reporting requirements from pension fund asset managers, such requirements should be promulgated as a tax regulation. If pension regulators have specific reporting needs, then such requirements should be promulgated as a separate regulation.
None	*26. Accounting and Reporting for Broker-Dealer Organizations*	*NA*	***Although this standard performs a potentially useful function, it is vastly oversimplified. To the limited degree that Kazakhstan's brokers and dealers need a Kazakhstan standard specific to their industry, they would be better served by a translation of the leading broker/dealer industry accounting guide.***

Appendix A

DRAFT

COMPARISON: INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND KAZAKHSTAN ACCOUNTING STANDARDS (KAS)

On the Adoption of IAS-Conforming Standards in Kazakhstan

At the December 1999 Joint Commission between the US and Kazakhstan governments, the Government of the Republic of Kazakhstan pledged to bring its national accounting practices into full compliance with international standards. Kazakhstani enterprises, financiers, scholars, accountants, auditors, bank regulators, and many others strongly encourage the Government to fulfill its commitment by means of full and expeditious adoption of IAS. International experts, both within and outside the CIS, also endorse adoption of standards that conform to IAS. This letter highlights some reasons why full adoption of IAS is necessary, and presents four means by this such adoption may be implemented.

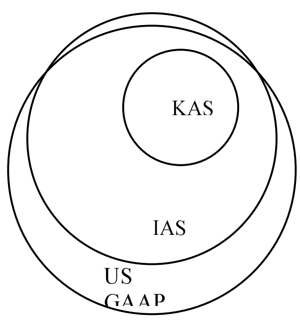
The reasons for the various endorsements of IAS are ample. Enterprises that hope to adopt the best management practices, receive credits and investments (whether local or foreign), or acquire other enterprises, must use a commonly accepted comprehensive system of accounting. The stability and security of the banking and pension systems depend on international-caliber accounting standards.

Worldwide, it is generally recognized that only two comprehensive accounting systems are satisfactory and have any possibility of long-term viability: IAS and US GAAP. Outside North America, only IAS is satisfactory. Some economically advanced countries, such as in Europe, can afford to spend several years making a full transition to IAS because they have reasonably sophisticated and functioning accounting systems that have developed over a period of several decades or longer. Such countries are efficient enough that they can afford a gradual conversion to IAS over a period of several years. (Even most developed countries, however, have already encouraged enterprises to apply IAS before the enterprises are officially required to do so.)

Within the CIS, the situation is more urgent. At the World Economic Forum held recently in Kazakhstan, local and international experts emphasized that in order for countries of the CIS to fulfill their economic potential, their governments must adopt IAS quickly and in full. The transition to IAS, in Kazakhstan as in most countries, is inevitable; and whereas the transition will be rather easy to facilitate now, the process will be more painful and disruptive in several years. This is due to several reasons:

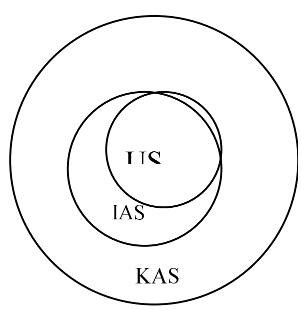
- Enterprises are becoming more adept at evading taxes by means of exploiting weaknesses in KAS, which is the basis for preparing most corporate income tax declarations. The longer companies are able to evade taxes, the more they will become accustomed to doing so and the greater difficulty the government of Kazakhstan will have in collecting taxes.
- As participants in the world economy interact more and become more sophisticated, IAS is getting more detailed and sophisticated by means of adding more standards and interpretations. If Kazakhstan waits many years before adopting IAS in full, IAS will have incorporated additional standards concerning sophisticated concepts that will be new to Kazakhstani enterprises. At that time, Kazakhstani enterprises may be less eager to make the transition than they are currently, because the transition to compliance with IAS will require greater amounts of time and effort than it would now.
- IAS is far more rigorous than KAS but somewhat less rigorous than US GAAP, and the rigor of IAS will increase over time as IAS and US GAAP converge. In recent years, the US SEC and the IASC had already begun to collaborate closely on the development of standards. In February, the 104 countries that constitute the membership of the IASC voted to facilitate convergence of IAS and US GAAP in order to make IAS fully global in application. The precision, transparency, and quality of IAS and US GAAP are higher than KAS. As a result, the scope of discretion and opportunities for creative accounting offered by KAS is relatively large. This situation may be depicted as follows:

Precision and transparency of accounting standards



Outer boundary represents highest quality of technical standards

Opportunities for creative accounting and opacity



Outer boundary represents the greatest opportunities for misleading and opaque financial statements

COMPARISON: INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND KAZAKHSTAN ACCOUNTING STANDARDS (KAS)

Perhaps equally important, international experience demonstrates that collections by the state budget will fall far short of their potential to the same degree that there exists inappropriate flexibility in the comprehensive framework on which tax declarations are based. In Kazakhstan, that framework is KAS. Unfortunately, the opacity permitted by KAS exacerbates the current budgetary problems.

The following table estimates the ranking of each existing KAS according to its compliance with IAS on a scale of 1 (major noncompliance) to 4 (full compliance).

Category (compliance of KAS with IAS)[4]	***IAS***	***Analogous KAS***	*Number of IAS in each category*
1 (major non-compliance of KAS with IAS)	1, 7, 14, 15, 16, 17, 19, 20, 21, 22, 23, 29, 32, 33, 34, 35, 36, 37, 39	1, 4, 6, 9, 16, 17,	19
2 (moderate non-compliance of KAS with IAS)	12, 18, 26, 27, Framework	5, 11, 13, 19, Framework	5
3 (minor non-compliance of KAS with IAS)	2, 4, 8, 11, 24, 25, 28, 30, 31	3, 6, 7, 8, 10, 12,14, 21, 15	9
4 (full compliance of KAS with IAS)	None	None	0
Overall rating of KAS compliance with IAS: 1,7			

Kazakhstan needs to fulfill its commitment to adopting IAS-compliant standards. As IAS 1 clearly states, and as the experts at the World Economic Forum Eurasia Summit clearly concluded, it is impossible to comply with IAS except through full adoption of *all* IAS. There are four main ways in which Kazakhstan accounting practices may be brought into compliance with international practices:

1) Adopt new KAS that fully comply with IAS, and require use of all new KAS starting 1 January 2001,

2) Adopt new KAS that fully comply with IAS, but as of 1 January 2001, require use of only those new KAS that are analogous to currently existing KAS. In other words, each existing KAS would become fully compliant with the analogous IAS, but the remaining standards would become effective at a later date that the Ministry of Finance considers appropriate. The new KAS that would become effective on 1 January 2001 would fully comply with IAS 1, 2, 4, 7, 8, 10, 11, 12, 16, 17, 18, 19, 21, 24, 25, 26, 27, 28, 30, 31, 38, and Framework.

3) Adopt KAS that fully comply with IAS, but as of 1 January 2001, require application of only those new KAS for which the existing KAS are in substantial non-compliance with IAS. This approach would require, as of 1 January 2001, a new KAS for each IAS in Category 1 of the table above. All other new KAS would become effective at a later date that the Ministry of Finance considers appropriate.

4) Adopt KAS that fully comply with IAS, but as of 1 January 2001, do not require application of any new KAS. All new KAS would become effective at a date that the Ministry of Finance considers appropriate.

Under alternatives 2, 3, and 4, the date selected by the Ministry of Finance for use all new KAS would ideally be not later than 1 January 2002. In all four alternatives, enterprises should be encouraged to apply the IAS-conforming KAS at a date earlier than the required date if they so choose.

Regardless of the alternative selected, the Accounting and Auditing Methodology Department would have several extremely important roles to perform. Among them would be to explain the application of accounting standards to the increasingly sophisticated transactions that will occur as Kazakhstan becomes more integrated into the world economic system. USAID would be willing to provide training and other various forms of technical assistance in the process of adoption and explanation of the standards.

[4] There is no publicly available version of KAS 27 and 28 (analogous to IAS 10 and 38) in English.