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IFRS ADOPTION IN DIFFERENT COUNTRIES: COMPARATIVE ASPECT

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СФЕРА ЗАСТОСУВАННЯ МСФЗ В РІЗНИХ КРАЇНАХ СВІТУ: ПОРІВНЯЛЬНИЙ АСПЕКТ

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СФЕРА ПРИМЕНЕНИЯ МСФО В РАЗНЫХ СТРАНАХ МИРА: СРАВНИТЕЛЬНЫЙ АСПЕКТ

В статті охарактеризовано сфери застосування МСФЗ в межах національних економік різних країн. Визначено юридичний статус МСФЗ для 23 розвинених країн світу за чотирма ознаками: «вимагається», «дозволено», «заборонено» та «не застосовується». Виокремлено 4 типи компаній, щодо яких законодавчо встановлюється застосування МСФЗ: національні публічні компанії, що здійснюють торгівлю пайовими та борговими цінними паперами на фондовому ринку та подають консолідовану фінансову звітність; національні публічні компанії, чії акції та облигації обертаються на відкритому ринку, та які мають право подавати окрему фінансову звітність; національні компанії, що не продають цінні папери на відкритому ринку; зарубіжні компанії, фінансові інструменти яких обертаються на національному фінансовому ринку. Проаналізовано рівень стандартизації подання звітної інформації країнами «Великої 20-ки», з-поміж яких виокремлено держави, що не застосовують МСФЗ як альтернативу національним стандартам фінансової звітності.

Ключові слова: МСФЗ, національні стандарти, затвердження МСФЗ, застосування МСФЗ, країни «Великої 20-ки».

В статье охарактеризованы сферы применения МСФО в пределах национальных экономик разных стран. Определен юридический статус МСФО для 23 развитых стран мира за четырьмя признаками: «требуется», «разрешено», «запрещено» и «не используется». Выделены 4 типа компаний, для которых используются МСФО: национальные публичные компании, торгующие паевыми и долговыми ценными бумагами на фондовом рынке и подающие консолидированные финансовые отчеты; национальные публичные компании, ценные бумаги которых оборачиваются на фондовом рынке, имеющие право подавать отдельную финансовую отчетность; национальные компании, не торгующие ценными бумагами на финансовом рынке; зарубежные компании, торгующие ценными бумагами на национальной фондовой бирже. Проанализирован уровень стандартизации подачи отчетной информации странами «Большой 20-ки», среди которых выделены страны, не использующие МСФЗ как альтернативу национальным стандартам финансовой отчетности.

Ключевые слова: МСФО, национальные стандарты, утверждение МСФО, применение МСФО, страны «Большой 20-ки».

The article refers to characteristic of the scope of IFRS within national economies of different countries. The legal status of IFRS application for 23 developed countries is characterized by the following features: «required», «permitted», «forbidden» and «not applicable». The author determines 4 types of companies to be characterized for IFRS application: domestic public companies that trade equity and debt securities in the Stock Exchange and prepare consolidated financial reports; domestic companies with listed shares and bonds entitled to prepare separate financial statements; domestic companies that do not trade securities in a public market; foreign companies that trade financial instruments in domestic financial market. The paper focuses on analysis of the rate of standardization of reporting information disclosure by the G20 members; those ones that do not apply IFRS as an alternative to GAAP are highlighted.

Key words: IFRS, GAAP, IFRS endorsement, IFRS application, G20.

Urgency of the research. International Financial Reporting Standards (IFRS) are developed by IFRS Foundation in order to create unified rules of accounting and reporting for entities all over the world. IFRS are characterized as recommended ones, without obligatory endorsement by countries. Nevertheless the process of financial reports standardization becomes the core issue for developed countries. Application of GAAP by states with many transnational companies and large volumes of investment creates additional loadings for accounting personnel to transform financial reports from GAAP to IFRS in order to provide comparability, relevance and verifiability of the statements.

Actual scientific researches and issues analysis. The issues of legal endorsement of IFRS by different countries are researched in the papers of C. Nobes [1], K. Ramanna, E. Sletten [2], K. M. Shima, D. C. Yangb [3], I. Lourenco, M. Branco [4]. The mentioned above authors

consider the effect of IFRS adoption for different countries with the use of empirical, econometric and statistical methods of recognition.

Uninvestigated parts of general matters defining. Regardless numerous researches in the field of IFRS approval by national economies, certain issues on legal endorsement of IFRS for different entities need further examination.

Target setting. Statement of research. The purpose of research refers to examination of the levels of IFRS approval for different business entity types as well as to analysis of IFRS application by G20 members in the process of financial statements preparation.

IFRS are the set of standards developed by IFRS Foundation and recommended for application by companies all around the world to make their financial reports comparable and verifiable as well as to “bring transparency, accountability and efficiency to financial markets around the world [5]”.

IFRS jurisdiction in each country is characterized by the depth of endorsement for different company types and industries. The author determines 4 types of companies, for which IFRS are required, permitted, prohibited or not applicable. They are the following:

- 1) domestic companies that trade debt and equity instruments in a public market and prepare consolidated financial statements;
 - 2) domestic companies trading financial instruments in a public market and preparing separate financial statements;
 - 3) domestic companies that do not trade securities in a public market; and
 - 4) foreign companies that trade capital and debt instruments in domestic financial market.
- Information relating IFRS jurisdiction by 23 countries is consolidated in Table 1.

Table 1

Application of IFRS around the world

№	Country	Application by DOMESTIC companies			FOREIGN companies whose debt or equity securities trade in a public market	Standard-setting body
		Prepare consolidated financial statements, whose securities trade in a public market	Prepare separate financial statements of the companies, whose securities trade in a public market	Companies whose securities do not trade in a public market		
1	2	3	4	5	6	7
1.	Canada	Required	Required	Permitted	Permitted	The Canadian Accounting Standards Board
2.	The USA	Forbidden	Forbidden	Forbidden	Permitted	Financial Accounting Standard Board; Staff of the US Securities and Exchange Commission
3.	Mexico	Required	Permitted	Permitted	Permitted	The Mexican Financial Reporting Standards Board
4.	Argentina	Required with exceptions	Required with exceptions	Permitted for some entities	Required	Argentinean Accounting and Auditing Standards Board
5.	Brasil	Required	Required	Required / permitted	Required	The Brazilian Accounting Pronouncements Committee

Table 1 continued

1	2	3	4	5	6	7
6.	Chile	Required	Required	Required	Permitted	Institute of Accountants of Chile
7.	UK	Required	Permitted	Permitted	Required / permitted	Financial reporting Council
8.	Germany	Required	Forbidden	Required	Required / permitted	Accounting Standards Committee of Germany
9.	France	Required	Forbidden	Permitted for some companies	Required / permitted	Accounting Standards Authority
10.	Poland	Required	Permitted	Required for certain companies	Required / permitted	Ministry of Finance
11.	Italy	Required	Required except for insurance companies	Permitted	Required / permitted	Italian Accounting Organization
12.	Ukraine	Required	Required	Required for certain companies	Required	Ministry of Finance
13.	China	Forbidden with exceptions	Permitted	Forbidden	Not applicable	Accounting regulatory department of the Ministry of Finance
14.	India	Forbidden	Forbidden	Forbidden	Permitted	The Institute of Chartered Accountants of India
15.	Japan	Permitted for certain companies	Permitted	Forbidden	Permitted for certain companies	Accounting Standards Board of Japan
16.	Republic of Korea	Required	Required	Required for certain companies	Permitted	Korea Accounting Standards Board
17.	Saudi Arabia	Required for certain companies	Permitted under certain circumstances	Required for certain companies	Not applicable	Saudi Organization for Certified Public Accountants
18.	United Arab Emirates	Required	Not applicable	Required	Required	UAE Accountants and Auditors Association
19.	Indonesia	Forbidden	Forbidden	Forbidden	Forbidden	Indonesian Financial Accounting Standards Board
20.	Turkey	Required	Forbidden	Required for some companies	Required	Turkish Public Oversight, Accounting and Auditing Standards Authority
21.	Australia	Required	Required / permitted	Required / permitted	Permitted	Australian Accounting Standards Board
22.	New Zealand	Required	Required	Required for certain entities	Required	External Reporting Board
23.	South Africa	Required	Required	Required	Required under certain conditions	South African Institute of Chartered Accountants

*Built by the author. Source: [5]

Understanding peculiarities of IFRS endorsement requires taking a closer look at IFRS application:

1. Canadian companies trading securities in a public market are required to prepare both consolidated and separate financial statements in accordance with IFRS. Private entities and non-for profit organizations that do not trade equity and debt securities can choose between IFRS and local GAAP. Foreign companies listing in the Canadian stock exchange are required to use IFRS except for:

- a) companies that have the option to apply US GAAP;
- b) companies that are also a US Stock Exchange foreign issuers and have 10% or less of their securities owned by residents of Canada; these entities may apply US GAAP;
- c) foreign issuer from the jurisdiction of Canadian Securities Regulators may use their domestic standards.

2. IFRS in the USA are out of jurisdiction and all the USA domestic companies are forbidden to apply them for financial statements preparation. Instead, they are required to use US GAAP. Foreign companies are permitted to choose between IFRS and US GAAP.

3. Mexican companies are required to apply IFRS, while all the rest groups of companies have a choice of either IFRS or Mexican GAAP implementation. Close financial relations with the USA has resulted in permitting of US GAAP application for foreign companies.

4. Argentinian companies that are listing securities at the stock exchange are required to apply IFRS except for banks, which must apply the accounting regulations issued by the Central Bank of Argentina, and insurance companies, which must apply the accounting regulations enforced by the Superintendency of Insurance. Separate financial statements are to be prepared in accordance with IFRS except for share holdings in subsidiaries and affiliates that must be measured at equity method rather than at cost. Permitting or prohibitions to apply IFRS by companies whose securities do not trade in a stock exchange depend on local authority of each Province: the Registry of Commerce of each Province either endorses or not the use of IFRS by not-public companies. In such case Local GAAP act as alternative to IFRS.

5. The jurisdiction of IFRS in Brazil and Chile refers to their endorsement for all groups of companies.

6. IFRS application by foreign companies is required for all the EU members. As exclusion, companies, whose mother companies apply local standards, are permitted to apply these standards, deemed by the European Commission as equivalent to IFRS. It is worth mentioning that certain EU countries (like France, Germany, Italy) do not approve IFRS application for public companies separate financial statements. Certain exceptions in IFRS endorsement for non-public companies are worth consideration: Polish authorities, for instance, have approved IFRS compulsory application only by banks, companies that has filed for admission for public trading, subsidiaries of the companies that prepare financial statements in conformity with IFRS.

7. In Ukraine IFRS have become mandatory for all domestic and foreign companies, trading securities in the stock exchange, from the 1 January 2012. Banks and insurance companies must always apply IFRS weather they trade or not financial instruments in a public market.

8. Highly developed Asian countries (G20 members) mostly didn't approve IFRS for public companies. China requires Local Accounting Standards application. Nevertheless, Chinese companies whose securities trade on Hong Kong Stock Exchange choose among IFRS, Hong Kong Financial Reporting Standards and Chinese Accounting Standards. To prepare separate financial statements Chinese companies may use IFRS. Foreign companies do not trade in Chinese securities markets, so in such case IFRS are not applicable.

9. All the Indian domestic non-financial companies are obligated to use Local Accounting Standards (Ind AS), while financial institutions apply accounting standards prescribed by Reserve Bank of India.

10. Japanese public companies with listed securities are permitted to use IFRS if they guarantee proper disclosure of information according to IFRS principles and allocate professionals in IFRS implementation. IFRS are also permitted for foreign companies whose securities are traded as secondary listings.

11. Saudi Arabia has approved obligatory application of IFRS only for banks and insurance companies. Separate financial statements may be prepared in accordance with IFRS, but they won't be available to the public.

12. Indonesia is the only country in the list that hasn't prescribed IFRS. International standards of financial statements preparation are not applicable and all the companies are required to apply Indonesian Financial Accounting Standards (SAK).

Most countries, described in the Table 1, are the members of G20¹ - countries with significant financial, natural, human resources and potential for further development. The latest G20 summit took place between November 16 and 18, 2015 in Antalya (Turkey) in order to join the "major economies of the world [6]" to adopt "a more integrated, coordinated and effective approach to the challenges [6]".

The G20 Summit 2015 key messages are the following: to enable inclusive and robust global economic growth, to develop investments and to improve economic conditions of functioning for Small and Medium Sized Enterprises [7]. So the core points of G20 meeting refer to economic issues. Undoubtedly that efficient and standardized reporting system of variously-sized entities is one of the key factors of international cooperation and investment. So it is important to analyze the use of IFRS by G20 member countries (Table 2).

Table 2

IFRS adoption by G20 member countries, %

№	Companies	Required, %	Permitted, %	Forbidden, %	Not applicable,%
1.	DOMESTIC companies:				
1.1.	IFRS application by companies that prepare consolidated financial statements, whose securities trade in a public market	72,5	2,5	25	0
1.2.	IFRS application in separate financial statements of the companies, whose securities trade in a public market	32,5	32,5	35	0
1.3.	IFRS application by companies whose securities do not trade in a public market	22,5	45	32,5	
2.	FOREIGN companies whose debt or equity securities trade in a public market	35	47,5	7,5	10

Conclusions. The research resulted in systematization of information on IFRS adoption by different countries. To prepare detailed analysis of IFRS application all the legal entities of IFRS adopting countries were divided into 4 groups by the jurisdiction (domestic, foreign), type of financial reports (consolidated, separate) listings in the stock exchange (traded or not in a public market). Performed research shows that 72,5% of domestic public companies of G20 members are required to prepare financial reports by IFRS, while 25% apply GAAP. Among countries, which forbid IFRS application for most of its public companies, the largest shares owned by the

¹ The USA, Canada, Mexico, Argentina, Brazil, The European Union, United Kingdom, Germany, France, Italy, Turkey, Saudi Arabia, Indonesia, China, India, Japan, Korea Republic, Australia, South Africa, Russia

USA, India, China, Japan, and Indonesia. Non-application of IFRS by such powerful (by economic indexes) countries complicates the process of economic cooperation and development. Nevertheless, accounting systems of these countries become a very interesting object of further researches.

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