

IFRS Convergence - Impact on the World Economy and Beyond



Mr. Hans Hoogervorst was first appointed the Chairman of International Accounting Standards Board, the independent standard-setting body of the IFRS Foundation, on 1 July 2011, and was reappointed its Chairman for another term in July 2016. Having served as minister of finance, health, welfare and sports in the Dutch Government, as Executive Board Chairman at the Netherlands Authority for the Financial Markets and Monitoring Board of the IFRS Foundation, Mr. Hoogervorst has the merit to be given a straight second term as Chairman of IASB, i.e. 2016-2021. Despite the support of international institutions like G20, World Bank, IMF, Basel Committee, IOSCO and IFAC, the IFRS adoption has been a challenge for the IASB and, under his leadership, the independent standard-setting body has marched much ahead since Mr. Hoogervorst has taken over as its Chairman. As the readers are aware, the IASB, to fulfil its standard-setting duties, follows a thorough and transparent due process and engages closely with all stakeholders including global investors, analysts, regulators, business leaders, accounting standard-setters and accountancy professionals. In this special write-up in the first-person style for The Chartered Accountant journal, the IASB Chairman highlights the impact of the IFRS adoption and convergence over the world economy and tries to look beyond into the future. Read on...

Congratulations on this special issue of the Chartered Accountant journal, celebrating *Chartered Accountants' Day* and marking the foundation of the Institute of Chartered Accountants of India (ICAI)!

We greatly value our relationship with ICAI, which has established an excellent track record in strengthening the accounting profession and the regulatory and governance framework in India.



Hans Hoogervorst

(The author is the Chairman of International Accounting Standards Board, who may be contacted at hhoogervorst@ifrs.org.)

Just last year, we held a successful joint stakeholder event with ICAI in Delhi, enabling us to discuss IFRS Standards and other important matters with Indian stakeholders directly.

Accounting institutes and professional bodies play a vital role in any economy; they train accountants, ensure codes of ethics and professional standards are upheld and help build the investor confidence needed for the development of financial markets. They also play a key role in the work of the International Accounting Standards Board (the Board) and the IFRS Foundation, which oversees the work of the Board. We rely on their on-the-ground knowledge and input to ensure our Standards are as high quality as possible and are globally applicable.

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Accountants work in many different capacities: as auditors, as external business advisers or in the financial management function of organisations. Whether they work in the public or the private sector, accountants have an important role in instilling trust and confidence—and influencing policy decisions, such as the adoption of IFRS Standards. They are often on the frontline of introducing and implementing change to organisations. Constant adaptation to the changing world we live in is therefore in the DNA of the profession.

IFRS Standards around the World

The mission of the IFRS Foundation and the Board is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. We are making significant progress towards achieving this goal. It is safe to say that IFRS Standards are now *the* global standard for financial reporting.

We have an ongoing project to assess adoption of IFRS Standards worldwide. So far, research has been carried out into 150 jurisdictions and profiles have been developed and published on our website. Of these 150 jurisdictions, over 125 require the use of IFRS Standards by all or most publicly listed companies, including 75 per cent of G20 countries. Most of the remaining countries permit companies to use the Standards. If we step back and look at what has happened in the relatively short time since the Board was established in 2001, it is clear that financial reporting has been through a transformation and that we have come a very long way.

There are still some large economies that haven't yet adopted the Standards, but they have progressed—especially in the large Asian markets. Every jurisdiction follows its own path to adopting IFRS Standards. In China, the national standards are already very similar to IFRS Standards and the Chinese Ministry of Finance has reconfirmed its commitment to work towards full adoption. In Japan, the number of listed companies voluntarily embracing IFRS Standards continues to grow. The latest data from the Tokyo Stock Exchange and the Sapporo Securities Exchange show that at the end of April 2017, 164 listed Japanese companies have either already adopted IFRS Standards or announced that they will do so. That equates to more than 30 per cent of the total Japanese market capitalisation of listed companies.

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You will be aware that in 2016, India adopted Ind AS—new accounting standards that are substantially converged with IFRS Standards. Ind AS are very close to IFRS Standards and word-for-word in most cases. These new standards will provide investors with much better information. Momentum towards full convergence with IFRS Standards in India is very strong and we are committed to working with stakeholders, including the ICAI, to eliminate the remaining differences between Ind AS and IFRS Standards.

While differences may be small, they can mean a lot to investors. The investment community seldom has time to sit down and learn how one set of standards may differ from another set of standards. For them, there is confidence in knowing that the financial reports they read all follow the same requirements. Therefore, to ensure India reaps the maximum benefits of its financial reporting transition, it is important that the end goal is full convergence with IFRS Standards.

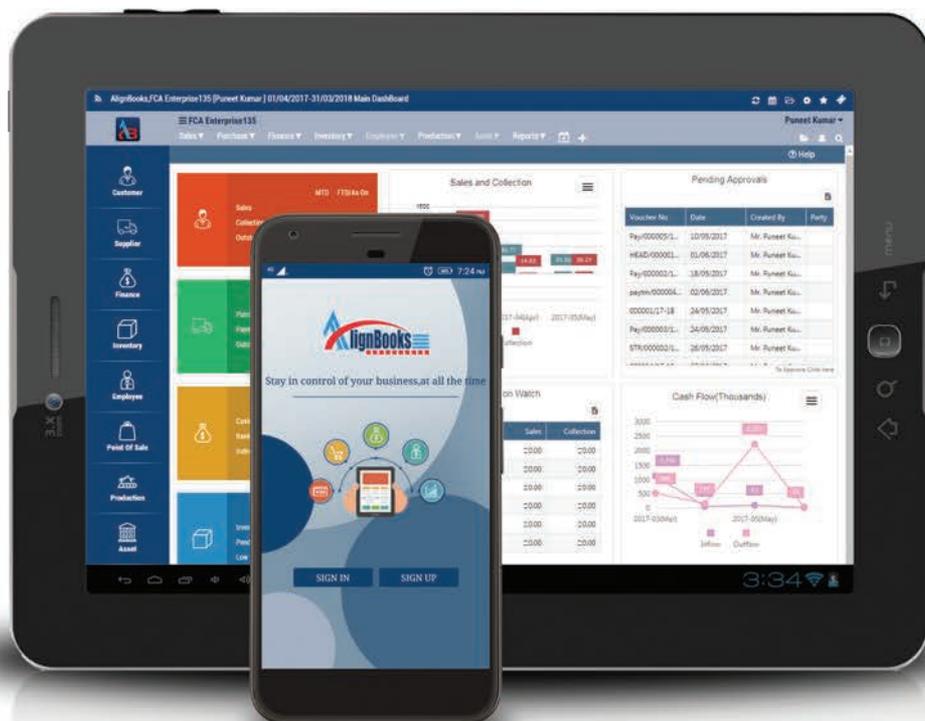
Role of IFRS Standards

We have measured the spread of IFRS Standards around the world, but what about their impact on the global financial system? To look at this, we must first acknowledge that we live in an inter-connected world where both trade and information sharing across country borders are the norm. In 1992, foreign direct investment (FDI) stood at \$153 billion. Today, it is close to \$2 trillion. Global trade has expanded tremendously, surpassing gross domestic product (GDP) growth year by year.

The increasingly global nature of financial transactions means that to enable investment, each jurisdiction must demonstrate high standards in corporate governance and reporting. The G20, the Financial Stability Board and other international bodies recognise the importance of such standards. Transparency for investors and other market participants is essential, and that is what IFRS



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Special Write-Up

Standards provide. For example, our new leases Standard, IFRS 16, allows investors and others to get an accurate picture of a company's lease assets and liabilities by requiring all leases to be reported on a company's balance sheet.

A sound regulatory framework is fundamental to trust, especially when market participants engage with each other across country borders. IFRS Standards provide vital accountability in these international markets. For example, IFRS 9, the financial instruments Standard, requires banks to move from an incurred loan loss accounting model to a more forward-looking expected loan loss model, which will provide investors and others with much better information about changes to a bank's credit risk exposure. This is important, because investors are more likely to part with their money if they have helpful financial information in hand—and if they know that they can trust that information.

IFRS Standards also make capital markets more efficient. Studies in emerging economies show that the cost of capital will generally fall when a country adopts the Standards. Investors no longer need to charge a risk premium associated with national accounting regimes that are not internationally recognised. Our insurance contracts Standard, IFRS 17, completed earlier this year, provides the first truly international standard for insurance accounting. IFRS 17 will allow investors to better understand the financial performance of insurers and to compare and contrast their performance with other similar companies.

Looking to the Future

With the completion of IFRS 17, in the years ahead, *Better Communication in Financial Reporting* will be an overarching theme for our work. Rather than creating big new Standards, we will focus on

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improving what we have. We will work to improve the communication effectiveness of financial statements by taking a fresh look at how information is grouped and presented in the primary financial statements. We will also continue to improve disclosures, an area in which we have already done a lot. And we will continue to work on the IFRS Taxonomy, which is our way of supporting digital reporting.

Another priority area is the work we do to support the implementation of new Standards and our work to effectively maintain existing Standards. We are putting more effort into developing education tools to support implementation, including exploring online tools. Recently, the IFRS Foundation signed an agreement with the World Bank to develop programmes to especially help emerging economies with adoption of the Standards.

Finally, we are developing a more focused research programme and are also looking at non-financial reporting and what role the Board should play in this area. Non-financial reporting is relevant to us, but to what extent should we participate, or even take a lead, in these initiatives? We do not anticipate enlarging the scope of our work significantly, but we are taking a fresh look at this issue.

Collaboration

The IFRS Foundation and the Board have a long-standing relationship with ICAI, which I look forward to developing further in the years ahead.

The accountancy profession will continue to play a very important role in the business and finance world, where understanding and knowledge of doing business internationally, and of international standards, will be increasingly important. Knowledge of IFRS Standards will provide Indian accountants with a skill set that is recognised and highly sought after in just about every country in the world.

I look forward to returning to India and meeting with ICAI and other stakeholders on the ground, and wish you all the very best on this celebratory occasion. ■