

Methods of implementations of IFRS: Proposition of a classification

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Accepted: August 17, 2014

DOI: 10.5296/ijafr.v4i2.6141

URL: <http://dx.doi.org/10.5296/ijafr.v4i2.6141>

Abstract

The IFRS have been adopted by most countries. This adoption differs in terms of method of implementation from one country to another. In fact, according Zeef and Nobes (2010), the adoption of IFRS in the world by countries to listed companies can be classified in accordance to its level of compliance with the IFRS issued by the IASB into four methods: "due process", "standard by standard", "optional" and "not fully converged". These authors have given some examples of adopters' countries and have not classified the ensemble of countries adopting the IFRS in the world. In this paper, we introduce a new classification of methods of implementation of IFRS based on the three criteria: The conformity with the IFRS Issued by the IASB, the necessity of a regulatory passage and the policy of implementation. Thus, the content analysis of studies and reports issued by several international entities concerning the adoption of IFRS around the world has permitted to establish statistics on the methods of implementation applied by the countries around the world. Additional investigations have showed that the state of implementation of IFRS differs from a continent to another.

Keywords: IFRS, Implementation, Methods, Classification.

1. Introduction

Expanding increasingly, the European Union met several problems due to lack of accounting harmonization of its member states. Indeed, from 6 countries in 1951 to 25 countries in 2004, the European Union could not remain without an effective and global accounting harmonization policy. It has therefore adopted in 2002 the regulation 1606/2002 making mandatory the use of IFRS as adopted by the Union for the preparation of financial statements of listed companies for the accounting periods beginning on 01/01/2005 (with retroactive effect 01/01/2004)..

Following this adoption of IFRS by the European Union via the regulation CE 1606, several other countries have made the implementation or began to study the possible application of the IASB standards. Indeed, in October 2003 Australia by its financial Reporting Council has urged company boards and management to prepare early for the adoption of IFRS-based accounting standards in Australia. In 2002, The Accounting Practices Board in South Africa announced that it has a policy of harmonizing Statements in accordance with the IAS. Also, several countries have started studies on the impact of adopting IFRS.

In 2013, according to the survey conducted by the IFRS Foundation to centralize information available to allow measuring of progress of each jurisdiction, the results showed that of the 66 surveyed countries, 80% have already adopted IFRS mandatory for all or almost all companies making public offerings and most of those that remain have made significant progress in this direction.

Although the number of countries adopting IFRS is quite large, there are differences in choices of implementation method. Indeed, according to the study of Zeef and Nobes (2010), the policy of implementation of IFRS around the world can be categorized into four principal methods with different degrees of compliance with the IFRS issued by the IASB. Thus, the European Union has therefore chosen to retain some control and to apply for these companies only the standards adopted by the Union. Other countries such as South Africa and Israel have opted for a direct application of the standards issued by the IASB. China has opted for an incomplete convergence while Australia has chosen to completely converge its standards to IFRS.

Although these authors have proposed a classification of methods of implementation of IFRS for listed companies, they did not conduct a classification of countries adopting the IFRS. Thus, this paper seeks to remedy to this deficiency. It proposes a new classification of methods of implementation of IFRS and proceeds to the classification of countries adopting the IASB standards. The result of this classification shows a difference in terms of IFRS implementation methods from one continent to another.

Thus, we debate in the first section the methods of implementation of IFRS established by Zeef and Nobes (2010) and the criteria used by these authors. Next, in the second, we explicate the methodology followed. Thus, we establish in the third section a new repartition of methods of implementation of IFRS based on other criteria in addition to those used by Zeef and Nobes. Finally, in the last section, we present the state and statistics of methods of

implementation of IFRS in the world by continent.

2. Background

There are several choices for the implementation of IFRS in terms of both methods and policies. According to the study of Zeef and Nobes (2010), a body of accounting norms can be implemented into a country by several methods. Indeed, the regulator of country can adopt the standard setter's process. Through this method, which is simple to implement, the regulator of a country gives an independent accounting standard setter the mission of developing accounting standards for these companies. The Standards issued by the standard setter are therefore automatically applied by concerned companies. Each accounting standard issued has a legal force allowing its application without passing through a regulatory approval. Also the regulator may choose to rubber stamping each standard. Through this process, the regulator adopts all standards published by the standard setter and transfers them automatically in its legal arsenal. No standard is changed or modified. The standards are adopted by the accounting framework and applied quickly. Likewise, the regulator can endorse the standards. By this method it can adopt or deletes norms. Only the adopted standards are applicable by the concerned entities. The last method for implementing accounting standards is the convergence. It can be a full or partial convergence. The Full convergence is based on the execution of a compliance process of all accounting standards with those of the target repository. The goal is to have at the end of the convergence similar accounting. The incomplete convergence is a compliance process of certain norms while the others will be conserved in their actual form.

Zeef and Nobes have conducted a ranking of these implementation methods and have given examples of countries adopting them. These authors have established a classification of these methods have assigned a name for each class and given examples of countries applying them. The first method called "adopting the process" has been chosen in South Africa and Israel and the second method named "standard by standard" in its two first levels "adoption as issued by the IASB" implemented in Canada and "Fully Converged with IFRS" in Australia; those standards, according to the authors, are the most compliant with the IFRS which are Issued by the IASB. The third level of the "standard by standard" method named "Adoption as Issued by the IASB with deletions" implemented in the European Union and the third implementation method called "optional" that are chosen in Switzerland are considered by Zeef and Nobes as possibly conform to the IFRS. The fourth method called "not fully converged" is applied in China and it is considered as compliant "Unlikely" with the IFRS as issued by the IASB.

3. Proposition of a classification of methods of implementation of IFRS

The examination of this classification made by the authors does not distinguish between the method of implementation and the policy of implementation. In fact, according to the above-mentioned classification, the "optional" implementation is considered by the authors as a method of implementation and has given as an example of countries adopting this method the Switzerland. For us, it is important to distinguish between the method of implementation and the policy of implementation. The method of implementing standard is a way to

introduce it while the policy of implementation is the intervention of the regulator to implement the method or the methods of implementations for a category of entities. So if we take the case of Switzerland, this country requires for all listed firms to use U.S. GAAP or IFRS When Preparing financial statements (Christopher S. Armstrong, 2008) (Deloitte, 2008). The Version of IFRS used in option by these firms is the IASB version. Thus, for this country the implementation method chosen is the "adoption as issued by the IASB" and the policy is to implement the IFRS optionally. In terms of implementation policy, the Swiss like any other countries that have chosen any method to implement IFRS had several choices. The country had the possibility to implement the standards for all or part of its companies as it had the possibility to implement the standard and to put it as an option for all or certain entities.

Based on the criterion of the compliance to the IFRS chosen by Zeef and Nobes (2010) to classify the implementation methods, we have added to this classification two criteria's. The first criterion is the use of a passage by a regulatory process and the second criterion is the policy of implementation. The Figure 1 below shows the various methods and policies of implementation of IFRS.

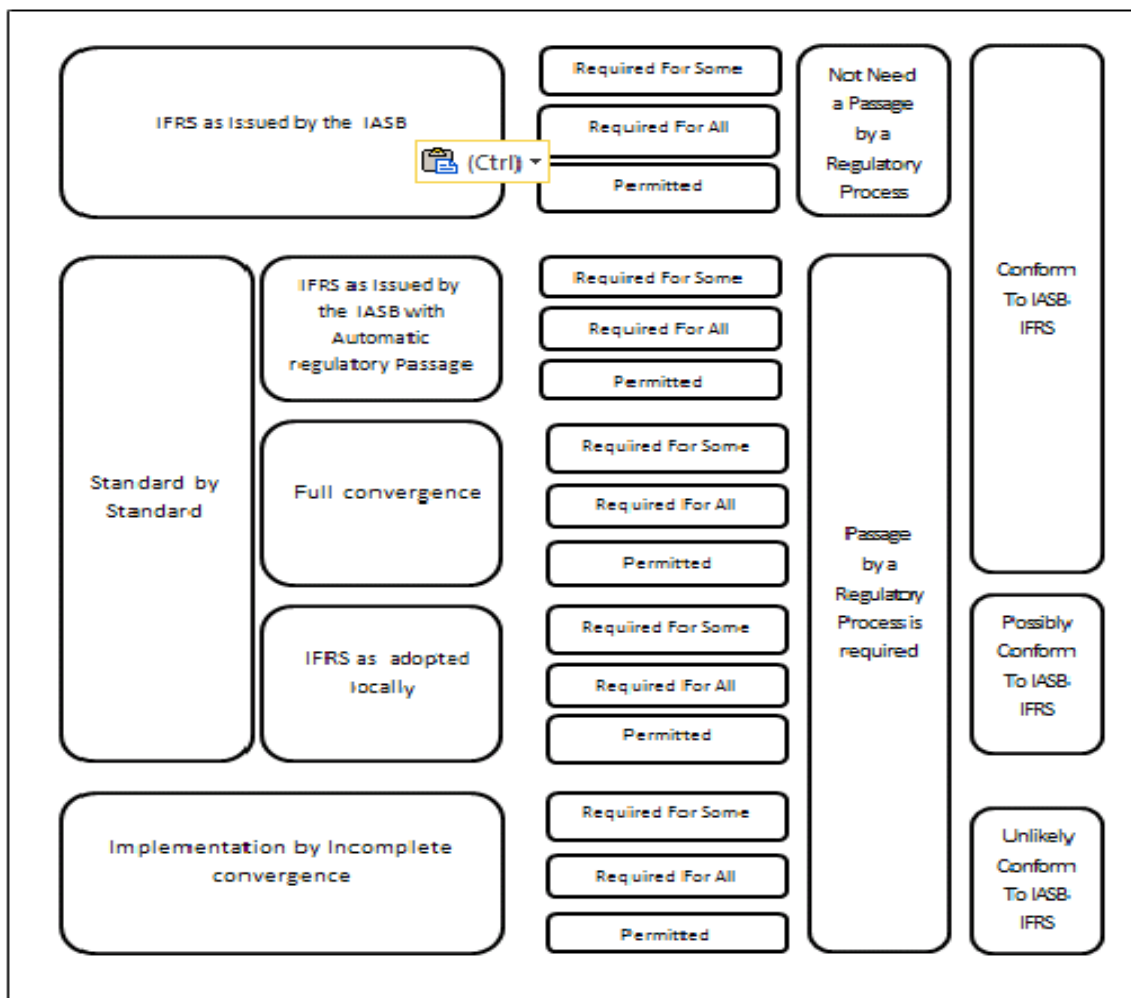


Figure 1. Classification of Major Possible Methods and Policies of implementation of IFRS

The Figure 1 gives a classification of major possible methods and policies for the implementation of IFRS. A country that has chosen to implement IFRS can opt for three principal methods: The adoption of IFRS as Issued by the IASB which is the most method conforms to the IFRS. This method doesn't require for the application of IASB outputs any passage across a regulatory process. Thus, all the standards published by the international accounting standard setter must be applied by the concerned entities. The Second method is the Standard By standard implementation; It can be divided into three Sub-Methods which are the application of IFRS as Issued by the IASB with an automatic regulatory passage, the full convergence and the application of IFRS as adopted locally. These three sub-methods need a passage by a regulatory process. This passage can be automatic without any change or deletion. In this case, we are talking about the adoption of IFRS as issued by the IASB with an automatic regulatory passage. This passage by the regulatory process can also take several times and can proceed to the deletion of some norms. In this case we talk about the adoption of IFRS as adopted locally. The last sub-method of the standard by standard is the full convergence. Through this method, the regulator chooses to completely change its accounting standards according to the IFRS. The method incomplete convergence is a process of changing the local standards in compliance with IFRS but keeping intact some standards.

4. Methodology

The aim of this study is to investigate the methods of implementation chosen by countries adopting IFRS. The research methodology employed to accomplish this aim is presented in this section. The population of the study consists of countries that have implemented the IFRS.

To perform this study, we rely on the profiles developed by the IFRS Foundation of countries adopting the IFRS (see: <http://go.ifrs.org/global-standards>), on the list of countries established by Deloitte (See: <http://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs>) and on the report of the adoption of IFRS by country published by PricewaterhouseCoopers (See: <http://www.pwc.com/us/en/issues/ifrs-reporting/publications/ifrs-status-country.jhtml>).

Therefore, we examine the various methods of implementation of IFRS used by the adopters' countries that are cited in these reports and studies.

In terms of methods of analysis, we have chosen the content analysis. Through the information on the adoption of IFRS issued by the three entities mentioned above, we have conducted a content analysis of reports and studies on the adoption of IFRS. Thus, four steps were established to identify the method of implementation used by a country:

- The selection of documents to study. These latter are constituted by the reports and studies published by the IFRS Foundation, Deloitte and PricewaterhouseCoopers;
- Reading the selected documents;
- The classification of documents;
- The Interpretation.

Table 1. Sample per Country and Source

	IFRS Foundation Profiles	Deloitte List of Countries	Pricewaterhouse Coopers Report
Date of Last Update	14 April 2014	20 July 2014	April 2013
Number of Countries	130	174	147
Number of Countries Selected	130	149	147

5. Results and Discussion

The results of the content analysis are presented by continent.

5.1. A Large usage of the Implementation Standard by Standard in Europe

The analysis of methods of implementation of IFRS in Europe shows that the majority of countries that have implemented IFRS did it through the implementation Standard by Standard. Thus, almost all 50 countries that are considered as a part of the European continent, have implemented the IFRS for at least a category of firms. In terms of methods used, we noted that 64% of countries of the European continent have resorted to the use of the implementing method standard by standard through the two sub-methods IFRS as adopted locally for the majority and the incomplete convergence; 36% have chosen the method IFRS as Issued by the IASB. The figures 2 below show the repartition of methods of implementation of IFRS in the European continent.

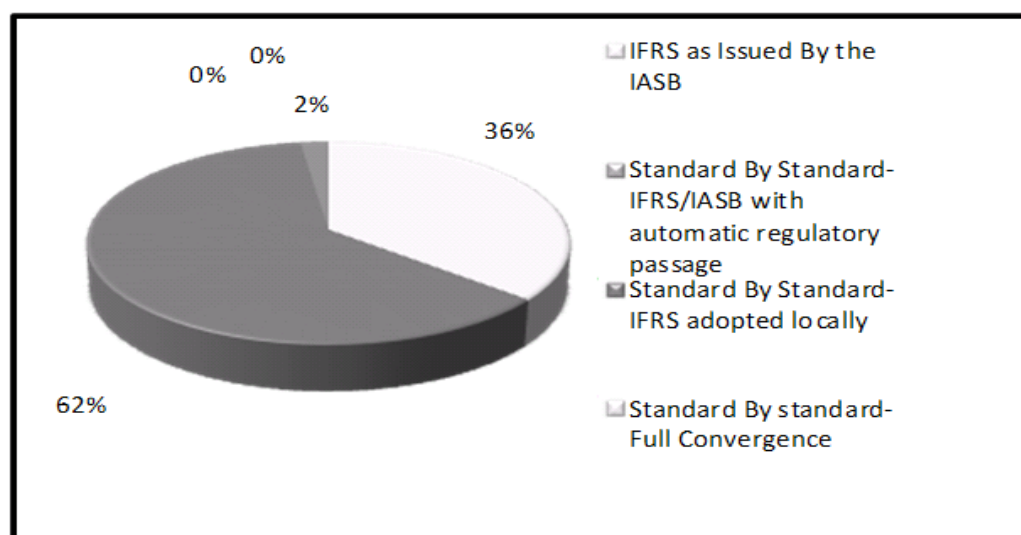


Figure 2. Methods of implementation of IFRS in Europe

The Figure 2 above shows a strong use of the method of implementation standard by standard / IFRS as adopted locally in the European continent; and this is due to the fact that the European Union countries are obliged to apply the IFRS adopted by the E.U. according to the EC 1606/2002. The incomplete convergence is used only in Andorra.

5.2. A Common usage of the method IFRS as Issued by the IASB in the American Continent

The analysis of profiles of countries figuring on the report of the adoption of IFRS by country published by PricewaterhouseCoopers and on the list of countries established by Deloitte shows that from 43 American countries, 91% require or permit the use of IFRS for at least a category of companies. Indeed, only Paraguay, Colombia and the United States that don't use IFRS. In terms of methods used, the most common method is the adoption of IFRS as Issued by the IASB.

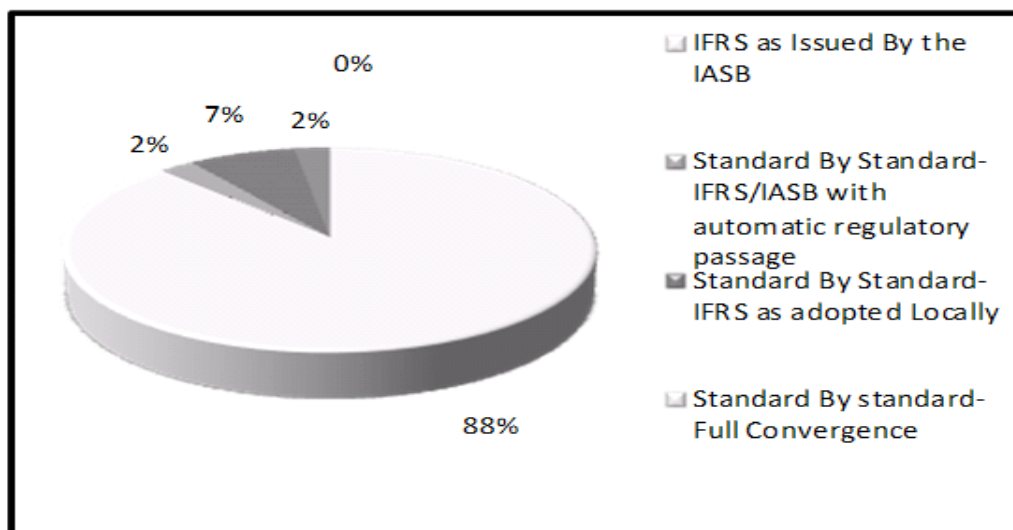


Figure 3. Methods of implementation of IFRS in the American Continent

The Figure 3 above shows a common use of the method of implementation IFRS as Issued by the IASB. Indeed, 88% of countries of the American continent use this method. 9% use the standard by standard with its two sub-methods Adoption of IASB-IFRS with an automatic regulatory passage and the IFRS as adopted locally. The Incomplete convergence is used by only one country which is Cuba.

5.3. A large usage of the method of implementation IFRS as issued by the IASB in Asia and Austria

In Asia, according to the reports established by the IFRS Foundation, PricewaterhouseCoopers and Deloitte, approximately all the 35 Asian countries listed by these reports require or permit the use of IFRS for at least a category of companies. In terms of implementation methods, we have noted that in Asia, although the method that is widely used is the adoption of IFRS as issued by the IASB, the other methods are also used by some Asian countries in lesser proportion. In Australia the method used is the IFRS as Issued by the IASB.

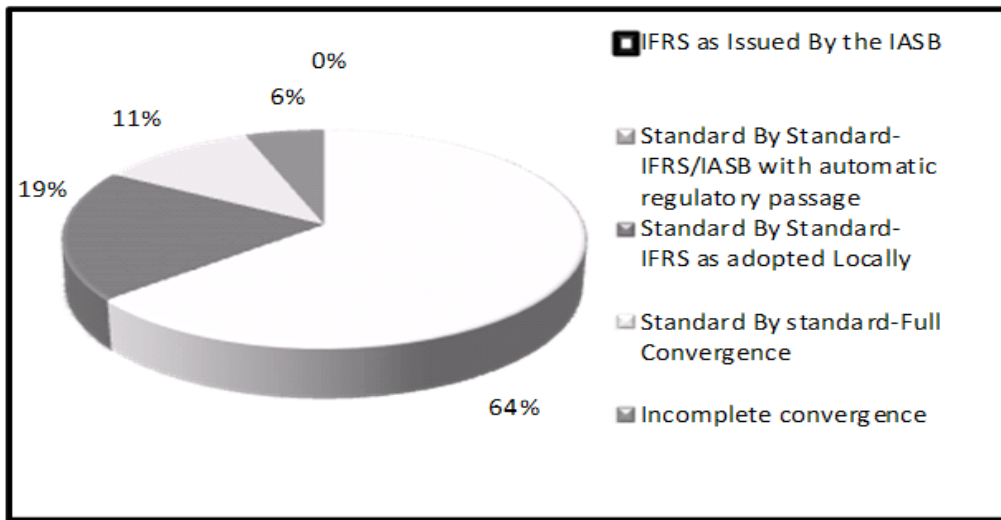


Figure 4. Methods of implementation of IFRS in Asia and Australia

The Figure 4 shows a large use by Asian countries and Australia of the method of implementation IFRS as Issued by the IASB with a proportion of 64%; while the other methods are less used. In fact only 18% of Asian countries have used to implement the IFRS, at least one category of companies, the Standard by Standard method with the Sub-method IFRS as adopted locally and 9% have used the full convergence while 6% have used the incomplete convergence.

5.4. A Common Use of the implementation by the method IFRS as issued by the IASB in Africa

From the 31 African countries listed on the report of PricewaterhouseCoopers, 29% do not use IFRS for at least a category of firms. The African continent is very overdue compared to the other continents. In terms of implementation method used, the common method is the adoption of IFRS as issued by the IASB.

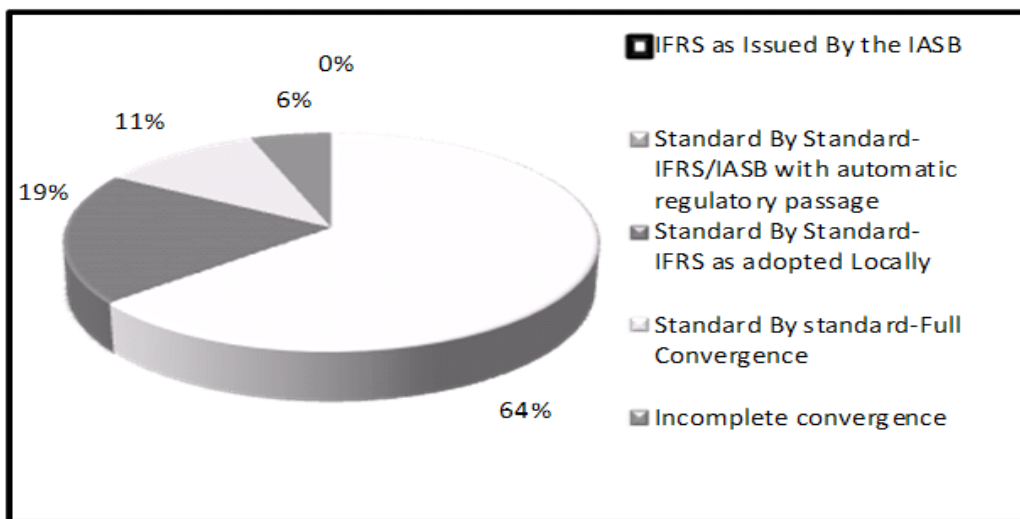


Figure 5. Methods of implementation of IFRS in Africa

The figure 5 show a large usage in the African continent of the method of implementation of IFRS which is the adoption of the IFRS as issued by the IASB with a part of 76% followed by the incomplete convergence that represents 14% of methods used. The standard by standard with its Sub-method IFRS as adopted locally represents 10% of methods of implementation of IFRS chosen in Africa.

Table 2. State of Methods of implementation of IFRS/Continent

Continent	Method	Sub-Method	Countries
Europe	IFRS as Issued by The IASB Standard By Standard	IFRS as Issued by The IASB	Albania, Armenia, Azerbaijan, Georgia, Monaco, Montenegro, Turkey, Macedonia, Moldova, Switzerland, Bosnia and Herzegovina, Serbia, Russia, Belarus, Kazakhstan, Ukraine, Iceland.
		IFRS as Issued Automatic regulatory passage	-
		Complete Convergence	
		IFRS as Adopted Locally	Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Norway, Netherlands, Poland, Portugal, Czech Republic, Romania, United Kingdom, Slovakia, Slovenia, Sweden, San Marino, Liechtenstein
		Incomplete Convergence	Andorra
		I	
America	IFRS as Issued by The IASB Standard By Standard	IFRS as Issued by The IASB	Costa Rica, Dominica, Ecuador, Grenada, Guatemala, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela, Mexico, Nicaragua, Panama, El Salvador, Guatemala, Guyana, Jamaica, Alaska, Anguilla, Netherlands Antilles, Aruba, Bahamas, Bermuda, Bolivia, Honduras, Panama, Puerto Rico, Dominican Republic
		IFRS as Issued Automatic regulatory passage	Canada
		Complete Convergence	-
		IFRS as Adopted Locally	El Salvador, Uruguay, Venezuela
		Incomplete Convergence	Cuba
		I	

Asia Australia and New Zealand	IFRS as Issued by The IASB	Afghanistan, Armenia, Bahrain, Cambodia, India, Israel, Jordan, Kazakhstan, Korea (Republic of Korea), Kuwait, Kyrgyz Republic, Laos, Lebanon, Mongolia, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates, Uzbekistan, Vietnam, West Bank/Gaza
	Standard	IFRS as Issued Automatic regulatory passage -
	By Standard	Complete Convergence New Zealand, Australia, Malaysia, Taiwan, Thailand, Hong Kong
		IFRS as Adopted Locally Azerbaijan, Japan, Macao Special Administrative Region, Pakistan, Philippines, Singapore, Sri Lanka
	Incomplete Convergence	China, Indonesia
Africa	IFRS as Issued by the IASB	Botswana, Ghana, Kenya, Libya, Malawi, Mauritius, Morocco, Namibia, Nigeria, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
	Standard	IFRS as Issued Automatic regulatory passage -
	by Standard	Complete Convergence
		IFRS as Adopted Locally Algeria, Mozambique,
	Incomplete Convergence	Egypt, Madagascar, Tunisia,

6. Summary and Conclusion

According to reports and studies published by the IFRS Foundation, Deloitte and PricewaterhouseCoopers, it appears that more than 147 require the use of IFRS for at least a category of firms. The analysis of content of these documents demonstrates that some countries, such as Australia, New Zealand and Hong Kong have adopted IFRS verbatim as national standards. Others as Indonesia and Thailand are in the process of adoption of IFRS. Also, several countries, including India, Japan, Switzerland and Singapore authorize, but not require, the use of IFRS. Saudi Arabia and Uzbekistan impose the IASB standards only for financial institutions. Although the IFRS are adopted by many countries in the world, the methods of implementation of these standards differ from one country to another.

Thus, to study these methods of implementation, Zeef and Nobes (2010) have classified the methods of implementation of IFRS through their degree of compliance with the IFRS issued by the IASB. These authors have proposed four methods of implementation of IFRS called: "due process", "IFRS issued by the IASB", "optional" and "not fully converged". Also, these authors have given some examples of countries for each method of implementation but have not conducted an exhaustive classification of countries which have adopted the IFRS in the world.

The present paper proposes a new classification based, in addition to the criterion chosen by Zeef and Nobes, on the criterion of the transition by a Regulatory process and the policy of implementation of IFRS. Thus, we have retained five methods of implementation of IFRS: "IFRS as issued by the IASB", "IFRS as issued by the IASB with an automatic Regulatory passage", "full convergence", "IFRS as adopted locally" and the "Incomplete convergence".

Also, through a content analysis of reports and studies published by the IFRS Foundation, Deloitte and PricewaterhouseCoopers, we have performed the classification of countries adopting the IFRS for at least one category of firms. The result of this classification has shown a significant difference in terms of methods of implementation used from one continent to another.

Thus, in terms of utilization of methods of implementation of IFRS, the method called "IFRS as Issued by the IASB" remains the most used in the continents studied with the exception of the European continent. In fact, in this continent, the method most used remains the method called "Standard by Standard - IFRS as Adopted locally". This is due to the fact that in the European continent, the European Union including 28 countries has chosen to keep a control on the accounting standards adopted and had opted for the implementation method "Standard by Standard-IFRS as ADOPTED locally".

In terms of contribution, the result of this study complements those of Zeef and Nobes (2010) and proposes a statement of methods of implementation of IFRS in the world. We had hoped to complete this study by the statistics of firms adopting the IFRS. However, this operation is difficult to establish because it requires statistics on the number of entities involved. In addition to 8,000 listed companies of the European Union, and many foreign companies listed on the American market using the IFRS, the other unlisted entities adopting the IASB standards remain elusive.

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