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**REPORT**

CESR's supplementary report to the European Commission on the programmes of Canada, India and South Korea to converge with or adopt IFRS, on the level of application of Chinese accounting standards by Chinese issuers and on the use of third country GAAP on EU markets



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## **Executive Summary**

This report aims to fulfil a mandate received by CESR from the European Commission in June 2010 to provide it with an update on the reports on the convergence or adoption programmes in Canada, China, India and South Korea. The mandate is designed to put the Commission in a position to provide a progress update report on these countries to the Council and the European Parliament in line with its obligations under Commission Regulation (EC) 1569/2007 passed by the Parliament in December 2007. In June 2009, at the European Commission's request CESR has prepared an update report.

The mandate received in 2010 from the Commission makes clear that CESR is required to have regard in its work to publicly available information or to information made available by the regulators concerned upon request in writing. The mandate identifies the potential need to make on spot investigations in India and China. In agreement with the Commission, it has been envisaged that such visits to take place only at the beginning of 2011. The mandate also makes clear that the report produced will be used by the Commission to supplement information contained in earlier reports made by CESR when it updates the Council and the European Parliament. This report should not be considered to constitute further advice by CESR on the equivalence or otherwise of any of the GAAPs concerned.

Consequently this report is intended to be basically factual in nature, providing for information much of the source material that has been used to write it, and should not in any way be considered a formal advice or opinion on the progress with regards to convergence or adoption achieved within the countries concerned. As this report is designed to update, it should be read in conjunction with the reports CESR has produced previously.

In performing the work, CESR has generally had recourse to the following sources of information:

- A meeting with a member of the International Accounting Standards Board (the "IASB");
- An exchange of written communications with representatives of each of the relevant securities regulators or accounting standards setters;
- Information publicly available on websites.

CESR's work indicates that in all cases, the countries concerned have taken further steps in pursuing their convergence or adoption programmes since CESR prepared its previous report in June 2009. The significant actions undertaken by each country are mentioned in the areas specific to each country.

The report sets out in dedicated sections the results of CESR's work on each of the countries.

## I. Introduction

1. Under both the European Prospectus and Transparency Directives, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required to produce financial reports either on the basis of International Accounting Reporting Standards ("IFRS") adopted pursuant to EC Regulation 1606/2002 (hereinafter "EU IFRS") or on the basis of a third country's national accounting standards ("third country GAAP") equivalent to those standards or IFRS.
2. In December 2007 the Commission published Regulation (EC) 1569/2007 "Commission Regulation establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council" ("Commission Regulation on the mechanism"). This Regulation established the conditions under which the GAAP of a third country can be considered equivalent to IFRS or EU IFRS pursuant to a definition of equivalence set out in article 2. The Regulation also set out conditions in article 4 under which the accounting standards of other third countries could be considered acceptable for a limited period expiring no later than 31st December 2011.
3. The aim of granting this transitional period was to allow the standard setters and regulators of those countries concerned more time to pursue their existing programmes either to converge their existing accounting standards with or to adopt IFRS. The countries concerned were Canada, China, India and South Korea. At the European Commission request, in 2008 CESR has provided advice on the equivalence for the countries mentioned above.
4. The Regulation also requires the European Commission to update the European Parliament at regular intervals on the progress that is being made by these countries with their respective programmes. Accordingly, in June 2009, CESR provided to the European Commission with a supplementary report on the progress made by the countries.
5. Consequently, in June 2010, CESR received a request<sup>1</sup> from the European Commission to produce for it by October 2010:
  - A report on the progress being made in Canada and South Korea to adopt IFRS and in India to converge with IFRS (such report to supplement the main assessment reports CESR had already produced on Canadian and South Korean GAAP (Ref/ CESR 08-293) and Indian GAAP (ref/ CESR 08-859) in 2008 and the update report in June 2009 (Ref/CESR 09-427));
  - An assessment of the level of application of the substantially converged Chinese accounting standards by Chinese issuers in their first year of reporting using those standards.

This paper addresses the work CESR has performed to fulfil this mandate.

6. The mandate received in 2010 from the Commission makes clear that CESR is required to have regard in its work to publicly available information or to information made available by the regulators concerned upon request in writing. The mandate identifies the potential need to make on spot investigations in India and China. In agreement with the Commission, it has been envisaged that such visits to take place only at the beginning of 2011. The mandate also makes clear that the report produced will be used by the Commission to supplement information contained in earlier reports made by CESR when it updates the Council and the European Parliament. This report should not be considered to constitute further advice by CESR on the equivalence or otherwise of any of the GAAPs concerned.

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<sup>1</sup> The full mandate of the European Commission is provided as Annex I.

7. Consequently this report, aimed at fulfilling CESR's obligations under the new mandate, is intended to be basically factual in nature, providing for information much of the source information that has been used to write it, and does not in any way seek to opine on the progress with regards to convergence or adoption achieved within the countries concerned.
8. Within CESR, the operational group Corporate Reporting Standing Committee chaired by Fernando Restoy, Vice-Chair of the Spanish CNMV, has been charged with fulfilling the European Commission's request.

## II. Update of CESR's reports on IFRS transition in Canadian, South Korean, China and India

Extract from the European Commission's mandate

*"According to Article 1a of the aforementioned Commission Decision and Article 2 of the Commission Regulation, the Commission is required to continue monitoring the efforts made by third countries towards a changeover to IFRS and regularly submit a report on progress made in this regard to the European Parliament and to the European Securities Committee [...] In this context, we (the Commission) have now already to start preparing the report 2010. I would therefore like to request for an update of its previous report on the situation in Canada, South Korea, China and India."*

### Update on IFRS adoption process in Canada

#### *Background*

9. In its May 2008 advice (ref CESR/ 08-293), CESR conducted an assessment of the existing program to adopt IFRS in Canada. As requested by the Commission at the time, CESR's report focused in particular on whether the program was comprehensive and capable of being completed before 31 December 2011. In June 2009, CESR provided the European Commission with an update report on the status of progress made by Canada with respect to its adoption project.
10. On the basis of this assessment, CESR drew the following conclusions in its report:
  - The Canadian Accounting Standard Board (AcSB) had made a public commitment in January 2006 to adopt International Financial Reporting Standards (IFRS) by 31 December 2011 and there was publicly available information giving details of both the program and the progress the Canadian Authorities had made towards achieving it;
  - Effective measures were being taken to secure a timely and complete transition to IFRS by the date indicated in the timetable published by the Canadian Securities Regulators; and
  - The Canadian authorities were showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) were involved in the adoption process.
11. To fulfill the new mandate and consequently to supplement its June 2009 report, CESR has looked at the steps taken by the Canadian authorities, in particular the AcSB, to achieve the objectives they have set by 31 December 2011. This has been based on information from three sources:
  - A meeting with a representative from the IASB;
  - An exchange of written communication with a representative of the Canadian securities regulator; and
  - Publicly available information issued by the AcSB, the Canadian Institute of Chartered Accountants (CICA) and Canadian securities regulators regarding the Canadian adoption program and its progress to date.

#### *The Accounting Standards Board of Canada (AcSB)*

12. In May 2009 AcSB confirmed and clearly communicated in the bulletin "Changeover to IFRSs: January 1, 2011" that the changeover to IFRS for publicly accountable profit-oriented enterprises in Canada will be mandatory for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The announcement has been made after consultation with the Accounting Standards Oversight Council (AcSOC) and representatives of investors, preparers, auditors, academics and regulators.

13. In line with the announcement made, the AcSB continued the process of bringing IFRSs into the CICA Handbook – Accounting, and finalised the transition of the standards process in January 2010. The Handbook now contains all IFRS that Canadian issuers are expected to apply in their first financial statements under IFRS. In September 2010, the AcSB issued an update to its summary comparison of Canadian Standards to IFRSs as of 31 December 31 2009. In October 2009, the AcSB issued an Exposure Draft entitled “Adopting IFRS in Canada III” which exposes changes made to IFRSs since the 2008 Bound Volume. This paper completes the process of exposing existing IFRSs for incorporation into Canadian GAAP.
14. On 24 March 2010, the AcSB published the *Annual Operating Plan for the year ended 31 March 2011* in which one of the main tasks identified was the monitoring and supporting of the initial adoption of the IFRS. The actions proposed refer to:
  - a. Refining the implementation plan to address comments and questions from stakeholders and changed circumstances
  - b. Assisting the IASB and Canadian stakeholders in dealing with any transitional issues arising during the course of preparations for 2011 changeover.
  - c. Working with other parties to facilitate the introduction of IFRS’s in Canada
  - d. Participating in global standard-setting activities, mainly by increased implication in working with the IASB
  - e. Planning for future research projects to review how IFRSs are being understood and applied in Canada
  - f. Carrying out programs of communication activities to counter any concerns arising in critical points in preparing the 2011 IFRS adoption.
15. In 2010, the AcSB continually monitored IFRS developments and adopted newly developed global standards on a timely basis. Nevertheless, the AcSB has taken decisions on deferring the IFRS adoption date in some specific cases. As such, the AcSB decided that entities with rate-regulated activities may need additional time to prepare themselves and users of their financial statements for IFRSs, but the deferral should last for one year only.. The deferral of the mandatory IFRS adoption date was also designed to prevent Canadian investment companies from having to change their current accounting treatment for controlled investees while the IASB completes its investment company proposal. The AcSB will consider the need to revise the adoption date based on future evolution of the project by the IASB.
16. Before the end of 2009, the AcSB established an IFRS Discussion Group to implement and maintain a regular public forum at which issues arising relating to the application of IFRSs in Canada could be discussed. The purpose of the group is to assist the AcSB by considering issues arising relating to the application of IFRSs in Canada and making recommendations on whether particular issues should be referred to the IASB or IFRS Interpretations Committee. Since it was set-up, the Group has met 4 times.
17. A recent survey indicates that 80% of those public companies responding expect to be ready in 2011. The accounting firms have made considerable progress in training personnel and clients.
18. In the draft of their strategic plan for 2011-2014, AcSB indicates that it will focus on doing more consultation with stakeholders, more intensive analysis of the discussion papers and exposure drafts and will support the IASB in carrying out post-implementation reviews. The plan is disclosed on the website and open for comments until 30 September 2010.

#### *The Canadian Securities Administrators (CSA)*

19. The CSA published in July 2010 a press release on the level of disclosure made by issuers on their upcoming transition to IFRS, as provided in their 2009 annual Management’s Discussion & Analysis (MD&A). The report highlights that there has been an improvement in the quality of disclosures. While it has been found that overall issuers enhanced the quality and amount of disclosures related to the changeover to IFRS, the Chair of CSA also emphasized the need for issuers to improve such disclosures in the future. The review found, among other things that:

- a. 95% of reporting issuers reviewed disclosed their IFRS changeover plan in their 2009 MD&A, which was considered a significant improvement over the previous year;
  - b. 60% of reporting issuers reviewed described milestones and anticipated timelines associated with key elements of their changeover plan; and
  - c. 82% of reporting issuers reviewed identified significant accounting policy differences between the current Canadian GAAP and IFRS. The CSA indicates that reporting issuers could improve their discussion and analysis of accounting differences to help investors understand the implications of the IFRS transition process that are specific to them.
20. The report indicates the two main categories of accounting differences identified based on the review: differences that are common across various industries, such as impairment of assets, revenue recognition and property, plant and equipment, and differences that are industry-specific, relating to mining, oil and gas and real estate areas.
21. The CSA reiterates the need for issuers to continue improving disclosure in subsequent periods and indicates that it is expecting to have quantitative information provided in the 2010 financial statements.
22. On 1st October 2010, the CSA issued a publication in which it confirms that reporting issuers currently using Canadian GAAP to prepare their financial statements, will have to use IFRS for their interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, in order to be compliant with securities laws and regulations in Canada, with the two exceptions related to issuers with rate-regulated activities and investment funds. Both have the option to defer their adoption of IFRS until their fiscal years beginning on or after January 1st, 2012.

#### *The Canadian Institute of Chartered Accountants (CICA)*

23. In July 2010, CICA issued a new publication "The IFRS Changeover: A guide for Users of Financial Reports" to help users of external financial reports better understand the potential impact of Canada's transition to IFRS. The document provides an overview of the main changes expected to arise with respect to each IFRS and identify those which might have a particular impact in some industries.

#### *Involvement in the work of the IASB*

24. The AcSB has continued its policy of responding to all invitations to comment issued by the International Accounting Standards Committee Foundation, the IASB and the International Financial Reporting Interpretations Committee (IFRS IC), strengthening two-way communications between the IASB and Canadian stakeholders. The AcSB has encouraged prominent Canadians to put their names forward for positions on the IASB and its various associated working groups. This has resulted in a good working partnership between the IASB and the AcSB.
25. In addition to the appointments made in 2009 as part of Standards Advisory Council (SAC) and IFRS IC, Canadian volunteers serve on IASB project advisory committees in areas such as employee benefits (Frank D'Andrea), insurance (Phil Arthur), lease accounting (Iain Robertson) and small and medium-sized entities (Dany Girard).

#### *Key areas of progress*

26. Based on the information included above, it can be considered that:
- a. The AcSB has accomplished the steps announced in its public statement made in 2006 regarding IFRS adoption



- b. The AcSB plans to continue and further increase its involvement in the monitoring of developments in IFRS
- c. A plan of communication with stakeholders on IFRS issues has been put in place
- d. The CSA has issued in October a statement confirming the adoption of the IFRS for listed companies for the financial years starting with 1 January 2011, except for issuers with rate-regulated activities and investment funds, which have the option to defer for 1 year.
- e. The CSA has already initiated a review process over the disclosures provided by issuers regarding impact of IFRS adoption.

## Update on IFRS adoption process in South Korea

27. In its May 2008 advice (ref CESR/ 08-293), CESR conducted an assessment of the adoption program for IFRS in South Korea. As requested by the Commission at the time, CESR's report focused in particular on whether the program was comprehensive and capable of being completed before 31 December 2011. In June 2009, CESR provided the European Commission with an update report on the status of progress made by South Korea with respect to its adoption project.
28. On the basis of the work described above, CESR drew the following conclusions:
- The Korean Financial Services Commission (KFSC) and the Korean Accounting Institute (KAI) had made a public commitment in March 2007 to adopt IFRS by 31 December 2011 and there was publicly available information giving details of both the program and the progress the South Korean authorities had made towards achieving it;
  - Effective measures were being taken to secure the timely and complete transition to International Financial Reporting Standards by the date indicated in the timetable published by the South Korean Regulatory Authority;
  - The South Korean authorities were showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) were involved in the process.
29. To fulfill the new mandate and consequently to supplement its June 2009 report, CESR has looked at the steps taken by the South Korean authorities, in particular the KFSC and the KAI to achieve the objectives they have set by 31 December 2011. This has been based on information from three sources:
- A meeting with a representative from the IASB;
  - An exchange of written communications with a representative of the Financial Supervisory Commission; and
  - Publicly available information issued by the KAI and the KFSC regarding the Korean adoption program and its progress to date.
30. It should be noted however that CESR has found little information available in English.

### *The Korean Accounting Institute (KAI)*

31. On 31 December 2008, the KAI announced the publication of a full set of Korean-IFRSs. This publication followed a previous one in 2007 containing what the KAI termed "integral" K-IFRS. This second publication covers what the KAI now terms "non-integral" parts of K-IFRS (namely Implementation Guidance, Implementation Examples, Bases of Conclusion etc. that accompany each of the K-IFRS) but which have also been endorsed for use by South Korean companies.
32. South Korea has put in place its own process for the endorsement of new standards issued by the IASB, to be performed by the Korean Accounting Standards Board (the "KASB"). The KFSC has made significant efforts to ensure that the new or revised standards are translated and approved in advance so that they can be applied by companies on the effective date of adoption. CESR has been told that all recent issued IFRS and amendments to IFRS, with the exception of IFRS 9, have already been incorporated into national legislation. It is expected that IFRIC 19 will be approved by KFSC in October 2010.
33. The KAI has continued the education program launched at the beginning of 2009 and held 12 off-line IFRS training sessions and provided for on-line sessions also, which were attended by around 1400 persons. In addition to this, a variety of other IFRS education programs are being

provided by several organizations such as the Korea Listed Companies Association, the Korea Exchange, the Korean Institute of Certified Accountants, accounting firms, academic institutions, etc.

*The Korean Financial Services Commission (KFSC) and The Korean Financial Supervisory Service (KFSS)*

34. At the beginning of 2009, the KFSC, the KFSS, the KAI and several accounting firms have together set up an “IFRS Roadmap Implementation Task Force” with the objective of reviewing amendments made to laws and regulations and to monitor the progress made in implementing the roadmap. Since set-up, the task force held 4 meetings and has discussed the following main issues:

- Accounting Review – Improvements of the accounting review system regarding IFRS adoption
- Listing – Modification of listing rules and regulations
- Public disclosure – Improvements of corporate disclosure rules and regulations for public reporting and amendments of related reporting forms
- Education – IFRS education for interested parties (investors, companies, auditors, etc.) and establishment of the IFRS supporting center.
- Financial supervision – Improvements of rules and regulations for financial institutions including rules for a bad debt allowance, a new financial soundness assessment standard.

The results of discussions in those meetings have been shared with companies and other stakeholders via KFSC/KFSS press releases and IFRS education materials.

35. In December 2009, the KFSC has amended the Act on External Audit of Corporations in order to define the scope of entities required to adopt IFRS starting with 1 January 2011 and to establish simplified accounting standards for non-listed companies not electing to adopt IFRS. The entities which are required to prepare financial statements under IFRS are:

- listed entities or entities intending to be listed
- financial holding companies under the Financial Holding Companies Act
- financial institutions under the Banking Act
- entities under the Investment Services and Capital Markets Act
- insurance companies under the Insurance Business Act
- entities under the Specialised Credit Financial Business Act

36. In January 2010, the KFSS has introduced a pre-clearance mechanism to assist companies in the implementation of IFRS. The mechanism consists of “expanded joint meetings” of IFRS experts from accounting firms, listed companies, the KASB and the KFSS .

37. In December 2009 a revised edition of the comprehensive reference book, “Understanding and preparation for adoption of IFRSs”, has been issued by KFSS and distributed to companies and auditors. The document contains general information on the IFRS application in Europe, major differences between IFRS and local GAAP, roadmap on the adoption in Korea, the main changes in the rules as a result of the IFRS adoption process, etc. CESR has only been provided with the table of content in English; the document is only available in Korean.

38. The KFSS indicated to CESR that a total of 59 companies have early adopted IFRS, of which 14 adopted in the financial year 2009 and 45 in the financial year 2010. The common issues arising as part of the enforcement process on IFRS first time adopters were mainly with respect to changes in scope of consolidation, fair value measurement and employee benefits.

39. As indicated in last year’s update report, the KFSS published a regulation mandating companies to disclose the IFRS impact analysis in their financial statements in the year preceding the adoption of IFRS. The KFSS has indicated to CESR that during 2009 and 2010 they have reviewed the disclosures made by issuers in their financial statements relating to the impact of IFRS adoption and that subsequent to this review they have conveyed a message further

encouraging companies which they felt were not yet ready to take the necessary steps forward in the process of adoption. The KFSS has also guided listed companies towards properly disclosing all information required relating to the process of adoption and has distributed educational material to help issuers in identifying best practices.

40. The Korean Ministry of Strategy and Finance (KMOSF) has made a preliminary announcement regarding possible ways forward concerning the impact of IFRS adoption on the Corporation Tax Law amendments. The legislation is expected to be promulgated before the end of the year.

#### *Involvement in the work of the IASB*

41. South Korea has one member in the SAC and a member of the KAI is seconded to the IASB staff.
42. CESR has been informed by the IASB that it is in regular communication with the KAI and the KFSC that they are bringing matters relating to the transition of South Korea to IFRS to the IASB's attention with a view to resolving such matters. From the issues currently being considered by the IASB on behalf of South Korea, accounting for transactions denominated in foreign currencies and hedge operations were given priority. While these matters might create some issues, KAI indicated us that no carve-out is envisaged at this stage.
43. In April 2010, the KAI hosted the meeting of the National Standard-Setters (NSS). Members of KASB attended the meeting. In October 2010, the KAI will host the meeting of the IFRS Foundation Trustees in South Korea.

#### *Key areas of progress*

44. Based on the information presented above, CESR concludes:
  - a. The South Korean government has announced the scope of entities required to adopt IFRS and amended the legislation in order to require such entities to apply IFRS in their financial statements
  - b. South Korea has undertaken further steps in its adoption process in order to keep pace with standards issued by the IASB. Nevertheless we could not assess this because of the little information provided in English.
  - c. The KFSS has reviewed the first IFRS financial statements published by early adopting entities in South Korea and taken further steps in order to ensure assistance for first time preparers in their process of the adoption.

## Update on IFRS convergence process in India

45. In its November 2008 advice (ref CESR/ 08-859), CESR conducted an assessment of the program to converge existing Indian Accounting Standards with IFRS. As requested by the Commission at the time, CESR's report focused in particular on whether this program was comprehensive and capable of being completed before 31 December 2011. In June 2009, CESR provided the European Commission with an update report on the status of progress made by India with respect to its convergence project.
46. On the basis of this assessment, CESR drew the following conclusions:
- The Institute of Chartered Accountants in India (ICAI) had made, in July 2007, a public commitment to adopt International Financial Reporting Standards before 31 December 2011;
  - The Indian Government had confirmed publicly in May 2008, its intention to achieve convergence with IFRS by 2011;
  - The ICAI had noted that it might make modifications, (such as requiring additional disclosures, changing some terminology or omitting some options or alternative treatments) to IFRSs to reflect "Indian conditions". However, these changes were expected to be minor and the stated intention of both the ICAI and the Indian Government was that Indian Accounting Standards would to all intents and purposes be fully IFRS compliant by the end of the program and that Indian issuers would therefore be in a position to make an absolute statement of compliance with IFRS in the notes to their accounts; and
  - Effective measures were consequently being taken to secure the timely and complete convergence of Indian Accounting Standards to IFRS by 31 December 2011.
47. To fulfil the new mandate and consequently to supplement its June 2009 update report, CESR has looked at the steps taken by Indian authorities, in particular the ICAI towards achieving the objectives they have set themselves by 31 December 2011. This has been based on information from three sources:
- A meeting with a representative of the IASB;
  - An exchange of written communication with a representative of the ICAI; and
  - Publicly available information issued by the Ministry of Corporate Affairs ("MCA") and ICAI regarding the Indian adoption program and its progress to date.

### *The Ministry of Corporate Affairs (the "MCA")*

48. The MCA has constituted a Core Group for overseeing the convergence of Indian Accounting Standards with IFRS. The two meetings of the group (held in January and March 2010) were attended by officials from the Ministry of Finance, The Securities and Exchange Board of India (the "SEBI"), The Reserve Bank of India (the "RBI"), ICAI, representatives from industry and other experts. As a conclusion to the meeting, the MCA made public a press release in which a roadmap of transition has been indicated. The roadmap distinguishes between 3 phases:
- Phase I – Companies which will convert their opening balance sheets as at 1 of April 2011. This category includes companies which are part of NSE-Nifty 50, BSE-Sensex 30, companies whose shares or other securities are listed on stock exchanges outside India and companies whether listed or not which have a net worth in excess of Rs. 1,000 crores
  - Phase II – Companies which will convert their opening balance sheets as at 1 of April 2013. This category includes companies having a net worth exceeding Rs.500 crores.
  - Phase III - Companies which will convert their opening balance sheets as at 1 of April 2014. This category includes listed companies which have a net worth of Rs 500 crores or less.
49. The roadmap for convergence with IFRS in respect of insurance, banking and non-banking companies is as follows:
- 1 April 2012 for Insurance companies

- 1 April 2013 or 2014 for all commercial and urban co-operative banks, depending on their net worth exceeding Rs.300 crores.
- 1 April 2013 or 2014 for all non-banking financial companies depending on their net worth exceeding Rs.500 crores.

50. The announcement of the IFRS transition roadmap was accompanied by a message from the MCA indicating the Ministry's firm commitment to the transition to IFRS and giving assurance over the timing of the convergence. At this stage it has been not clarified the potential impact of the roadmap over the Indian entities currently listed in Europe and which are required to adopt Indian converged standards after 1 April 2011.
51. The MCA had finalised amendments to be made in the Companies Act to facilitate convergence including revision of Schedule VI to the Act which prescribes the minimum disclosure requirements for the financial statements and revision to Schedule XIV on depreciation rates. We have been indicated that these changes are expected to be enacted shortly.
52. Early in 2010, the MCA constituted a further core committee whose objective is to address issues related to the impact of IFRS convergence on Income tax. The ICAI had previously set up a joint study group comprising Central Board of Direct Taxes (CBDT) members and income tax department officials which has concentrated first on three sectors: telecom, banking and power.
53. In July 2010, at the India-Japan Forum, a Memorandum of Understanding was signed between the Core Group on IFRS constituted by the MCA, the Government of India and the IFRS Council from Japan. This event was welcomed by Sir David Tweedie, IASB Chairman.

*The Institute of Chartered Accountants of India (the "ICAI")*

54. The ICAI's Accounting Standards Board (ASB) proceeded to the modification of the Indian Accounting Standards and submitted the converged version to National Advisory Committee on Accounting Standard ("NACAS") to the extent necessary to converge them totally with IFRS. ICAI confirmed us that NACAS has reviewed the submitted standards, and is expecting to finalize their position by the end of October and then submit its recommendations to the Government.
55. Based on information publicly available, there are no corresponding Standards available under the existing Indian GAAP for the following IFRSs: IAS 26 – Accounting and Reporting by Retirement benefit Plans, IAS 29 – Financial Reporting in Hyperinflationary Economies, IAS 40 – Investment Property, IAS 41 – Agriculture, IFRS 1- First Time Adoption of International Financial Reporting Standards, IFRS 2- Share Based Payment, IFRS 4 – Insurance Contracts, IFRS 6 – Exploration for Evaluation of Mineral Resources.
56. The ICAI's ASB has launched 100 hours Certification Course on IFRS to train and enhance the professional experience of its members and the other stakeholders of the profession with regard to the Indian Accounting Standards converged with IFRS. Until September 2010, about 2000 members have successfully undergone the training under this course. In April 2010 the ICAI has conducted an opening ceremony to launch Indian workshops to be organised in 58 locations across the country. The event has received the support of the MCA, whose representative Shri R.Bandyopahyaya, Secretary in MCA has inaugurated the open ceremony and stressed out the importance of the convergence to IFRS for the economic development of the country and the role of such training programme in ensuring that a smooth and effective convergence process as per stipulated deadlines. Until September 2010, more than 25 workshops have been organised and attended by 1800 delegates. In addition to this, the Committee on Information Technology of ICAI has launched an IFRS e-learning course.





57. The ICAI has also indicated to CESR that it sees no reason to change its proposed mandatory effective date for transition nor to believe that convergence with IFRS might not be achieved within the timeframe i.e. by 2011.

#### *The Securities and Exchange Board of India ("SEBI")*

58. In April 2010, SEBI issued a circular amending the Equity Listing Agreement (ref. Clause 41 (l) (g)). This amendment allows listed entities having subsidiaries an option to submit consolidated accounts using IFRS, while continuing to file standalone financial statements using Indian GAAP. The approval of such an amendment was one of the key requirements in the IFRS convergence plan.
59. In order to respond to the concern raised by the IASB on the lack of comment letters they were receiving from India on exposure drafts, SEBI set up a group in February 2010 under the chairmanship of Shri Y.H. Malegam with representation from RBI, ICAI, accounting and auditing firms, and industry to discuss and submit comments on the exposure draft issued by the IASB in an objective and streamlined manner. Since its formation, the group has prepared comment letters on the following EDs issued by IASB: Financial Instruments: amortised Cost and Impairment (IFRS 9) and Fair Value Option for Financial Liabilities.

#### *Banking*

60. In July 2010, the Reserve Bank of India announced it was setting up a working group to address implementation issues and facilitate the formulation of operational guidelines in the context of IFRS convergence for the Indian banking system. The members of the Group include representatives from the Indian Banks' Association (IBA), ICAI and various regulatory and market related departments of the Bank. In its Annual Policy Statement for the year 2010-2011, RBI announced that in order to facilitate smooth transition to IFRSs, it was proposing to undertake a study on the implications of the IFRSs convergence process and to issue operational guidelines as appropriate.

#### *Involvement in the work of the IASB*

61. ICAI has defined a process to send comments on the Exposure Drafts and other documents issued for comments by the IASB. Under this process, the comments are required by issuing the same as an exposure draft of the ASB and after compilation answers from various stakeholders, they are sent to the IASB. The ICAI has sent comments on the recent exposure drafts issued by IASB.
62. India has recently increased its involvement in the development of IFRS at the IASB. As of 1st of January 2009, Prabhakar Kalavacherla has been appointed as a board member of the IASB. He is a member of both the ICAI and the American Institute of Certified Public Accountants. India is also represented by one member in the SAC. India also has one trustee as a member of the IASCF.
63. The IASB and the ICAI aim to meet up twice a year to discuss issues which relate to the transition to IFRS in India, the last such meeting took place in June 2010.

#### *Other considerations*

64. Based on CESR discussion with IASB and other public information, there is currently uncertainty on whether India would follow the IASB standards or come out with a modified country-specific version, envisaging carve out in some areas like: agriculture, financial instruments, negative goodwill and real estate. At this stage, it has been decided that, IFRS 9

would not be required to be applied by entities having to converge from 1 April 2011. In terms of implementation issues, while differences still exist between the converged Indian GAAP and IFRS, the companies currently applying IFRS will probably be required to apply IFRS 1 – “First time adoption” for a second time.

65. Since 2009, India is participating to the Asian-Oceania Standard Settings Group ("AOSSG"), a group of 24 members of the region created to establish a platform to discuss problems and share experiences in the convergence process, to participate in the development of the IFRSs, and to make contributions to a single set of high quality global accounting standards.

*Key areas of progress*

66. Based on the elements presented above, it might be noticed that India made progress in the following:
- a. A clear timetable of the transition of the companies to IFRS has been established and communicated by the MCA
  - b. Further steps have been taken forward in the IFRS educational process ensuring the preparation of companies and professionals to the transition to IFRS
  - c. India is increasing its involvement in dialogue with the IASB and other regional bodies dealing with IFRS adoption/transition matters.
  - d. A phased approach has been put in place with respect to the reporting under IFRS by the entities currently applying Indian GAAP.



## Update on IFRS converged standards level of application in China

### *Background*

67. In its March 2008 advice (ref CESR/ 08-179), CESR recommended that the European Commission postpone a final decision on the equivalence of Chinese GAAP until there was more information on the application of the new Chinese accounting standards. This recommendation was based on CESR's belief that evidence of adequate implementation was important in the context of an outcome-based definition of equivalence. CESR however also recommended that the Commission allow Chinese issuers to continue to use Chinese GAAP when accessing EU markets and therefore to accept Chinese GAAP under article 4 of the Commission Regulation on the mechanism until such time as there was adequate evidence to enable a decision to be made under article 2 thereof.
68. In June 2009, CESR provided to the European Commission with an update report on the progress made by China in the process of application of the Chinese converged standards with. The report has been approved and endorsed by the European Union Parliament in June 2010. The update report is part of the on-going process of assessment of the equivalence of Chinese GAAP and which allow Chinese issuers to access the European markets with financial statements being prepared under Chinese GAAP.
69. As stated in the introduction to this report, the European Commission has now requested CESR to undertake limited additional work to assess whether Chinese Accounting Standards for Business Enterprises (ASBEs) are being properly applied by Chinese issuers. In order to do this, CESR was to obtain appropriate evidence relating to the application of ASBEs by Chinese issuers. As for its work on Canadian, Indian and South Korean GAAPs, the new mandate received from the Commission makes clear that in relation to Chinese GAAP also, CESR is only required in performing its work to have regard to publicly available information or to information made available by the Chinese Regulator upon request in writing. Similarly, although CESR's report on Chinese GAAP will be used by the Commission to supplement the information contained in earlier reports made by CESR when it updates the European Parliament, the new CESR report will not be considered to constitute further advice by CESR on the equivalence or otherwise of Chinese GAAP. Such advice will only be required in 2011.
70. To fulfil the new mandate and consequently to supplement its June 2009 report, CESR has looked at the steps taken by the Chinese towards achieving the objectives they have set themselves by 31 December 2011. This has been based on information from three sources:
- A meeting with a representative from the IASB;
  - An exchange of written communication with a representative of the Ministry of Finance; and the Analysis Report on the Implementation of ASBEs by Companies Listed in mainland China in 2008 and 2009
  - Publicly available report issued by the World Bank in October 2009: "Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing" – People's Republic of China.

### *The Ministry of Finance (the "MOF")*

71. In 2009, the Accounting Regulatory Department of the Chinese MOF published a report on "The implementation of Accounting Standards for Business Enterprises by Companies Listed in Mainland China in 2008". In 2010 a similar report has been issued for the year 2009. English versions of those reports have been also sent to CESR and form the main source of information used by CESR to fulfil the new mandate.

72. The main conclusions of the reports on 2008 and 2009 review are the following:

Accounting matters:

- In December 2007, ASBEs realised the equivalence with Hong Kong Financial Reporting Standards.
- The results of the analysis on the 1774 listed companies (2008: 1624 companies) shows that every specific standard was continuously and effectively implemented by listed companies in both periods 2008 and 2009. A particular attention has been paid in the report on 2008 to some specific areas in which there are still differences with the IFRS, such as accounting for: investment property, impairment of assets, share-based payment, debt restructuring, and business combination. The report on 2009 provides a quantitative analysis of the impact of the ASBEs application in the areas such as: impairment expense and reversal for assets, recognition of provisions for restructuring and onerous contracts, capitalisation of development costs, impact of cost of labour in cost of inventories, use of cost model instead of fair value for investment properties, investment income, etc.
- Regarding the amendments made to IAS 39 in October 2008 with respect to reclassification of financial assets, China has decided not to adopt that amendment on the ground that: ASBEs prescribes strict and limited conditions in the application of the fair value for assets and liabilities measured at fair value. The IASB explicitly expressed its agreement and recognition and believed that China's action would neither constitute the difference between ASBE and IFRSs not affect the development of ASBE towards the international convergence.

Scope of application:

- The scope of application has been extended to all non-listed state-owned enterprises, all non-listed commercial banks, related financial institutions and all non-listed commercial insurance companies. The scope has been expanded since 1st of January 2009 to rural credit cooperatives and state-owned enterprises in most provinces. By end of May 2009, in addition to all listed companies, large and medium-sized enterprises in 35 provinces have implemented ASBEs.
- The report indicates that all provinces actively took various effective measures and carefully organised the implementation of ASBEs in respective regions. In some provinces there have been established working groups for implementing ASBEs, strengthening the coordination and cooperation of the finance department with supervisory authorities on state-owned assets, taxation and securities.
- In line with expanding scope of the application of the ASBEs, it is estimated that the target of full implementation of ASBEs by all large and medium-sized enterprises in Mainland China by around 2010 can be achieved.

General matters

- The MOF believes that the move to ASBEs has improved the quality and the reliability of financial reporting in China, mainly due to increased transparency of disclosures. The MOF also believes that the converged-ASBEs are both making the Chinese market more attractive to overseas issuers and putting Chinese issuers in a better position to access international markets.
- The report also identifies next steps to be considered as part of the convergence project:
  - further participation in the major reform projects of IASB,
  - complete the work on the equivalence of the public supervision on audit

73. In terms of assessment of the ASBEs implementation by Companies Listed in China, the MOF reiterates the fact that the process has been smooth and effective over the past three years.

74. In response to the call from the G20 and the Financial Stability Board on establishing global uniform accounting standards, the Ministry of Finance (MOF) issued in April 2010 a statement: "Roadmap for Continuing Convergence of the ASBE with the IFRS". The MOF reassured that it intends to make efforts and continue the convergence process, with relevant improvement

projects to the ASBE to be accomplished by the end of 2011. The revised ASBE system will still consist of three parts: Basic Standard, Specific Standard and Implementation Guidance. The MOF representative indicated us that as of October 2010, except for IFRS 9, all other standards and interpretations issued by IASB have been implemented in the ASBEs. Nevertheless, we could not verify by ourselves at this stage the truth of this statement.

75. The statement also indicated that promotion and training are conducted to ensure that all listed companies and non-listed large and medium-sized enterprises gain an understanding of the changes to relevant accounting standards and apply them effectively.
76. We have been indicated that in 2010 the MOF started a series of accounting reform seminars for accounting and management-majored young teachers, who form vital team in the accounting, finance and audit fields in universities and colleges, to offer a comprehensive training about latest changes of accounting standards, accounting practical application difficulties, audit practice approaches, aiming to completely improve teachers' quality and better integrate the ASBEs into the education teaching system.

#### *World Bank Report*

77. In October 2009, the World Bank issued an assessment report on the observance of standards and codes, with a section dedicated to the accounting.
78. In terms of equivalence of the ASBEs and IFRS the report indicates that the meetings held in April and October 2009, between China Accounting Standing Committee ("CASC") and IASB, as part of the convergence mechanism, helped to identify and eliminate some differences between ASBE and IFRS. In August 2009, the IASB decided to exempt from the disclosure requirements for transactions between a government –controlled reporting entity and that government.
79. In terms of assessment of ASBEs application by the preparers, while the general conclusion was that many company's financial statement have shown a high degree of compliance with the accounting standards, the report draws the attention to some areas of non-compliance, identified based on the independent review of 38 entities: insufficient disclosure related to financial instruments, debt restructuring, segment reporting, misclassification of leases, and classification of restricted equities as available-for-sale.
80. Regarding training and education, the report notes the need for further steps to be undertaken by MOF in collaboration with other bodies in order to ensure continuing development of professional staff from companies, regulators and auditors.
81. The report concludes that with the high level of commitment proved by the Government and the implementation of the developed roadmap, China expects to achieve its continuing and full convergence with IFRS in 2012.

#### *The IASB*

82. The MOF currently meets with the IASB twice per year and there is a Chinese member on the board of IASB. The MOF has been encouraging companies and accounting firms to comment to the IASB on IFRS exposure drafts and discussion papers. In addition to that, China is continuing its significant involvement in the Asia Oceania Standard Setters Group, being one of the two leading members of the Group.
83. Based on CESR discussion with IASB, no decision has been taken yet regarding the convergence with the new standard on financial instruments, IFRS 9 on Financial Instruments, a final decisions will be taken when the IASB will have finalised all phases of the project.

*Key areas of progress*

84. On the basis of the elements presented above, the following conclusions might be drawn:
- a. The roadmap issued in April constitutes an indicator of the Government commitment in the process of continuing convergence;
  - b. The application of the ASBEs by the listed entities improved during the period;
  - c. China is continuing its active involvement in dialogue with the IASB and other regional bodies dealing with IFRS adoption/transition matters;
  - d. Further steps have been taken in increasing the education of accounting professionals.

## Annex I - Mandate from the European Commission

Ref. Ares(2010)314890 - 08/06/2010



### EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

The Director

Brussels, 08. 06. 2010 - 314890  
DG MARKT F3/MK/ga D(2010)328888

Committee of European Securities  
Regulators  
For the attention of Mr. Eddy Wymeersch,  
Chairman  
11-13 Avenue de Friedland  
75008 PARIS - FRANCE

**Subject:** Request for a report relating to the developments of certain third country GAAPs with regard to their equivalence under the Transparency Directive and Prospectus Regulation

Dear Mr. Wymeersch,

As you know, the Commission adopted the Commission Decision 2008/961/EC and Commission Regulation No 1289/2008 establishing equivalence of certain third country GAAPs pursuant to the Transparency Directive and Prospectus Directive and Regulation. In these legal measures, the Commission recognises the equivalence of the IFRS as issued by the IASB and the Japanese and U.S. GAAP, and furthermore, decides to accept the GAAPs of China, India, South Korea and Canada within the EU for a transitory period ending no later than on 31 December 2011.

According to Article 1a of the aforementioned Commission Decision and Article 2 of the Commission Regulation, the Commission is required to continue monitoring the efforts made by third countries towards a changeover to IFRS and regularly submit a report on progress made in this regard to the European Parliament and to the European Securities Committee.

We greatly appreciate your report delivered in June 2009, and look forward to further cooperation. The third monitoring report has already been prepared, and is expected to be adopted by the Commission shortly. The monitoring report will be sent to you immediately upon its adoption.

In this context, we have to already start preparing the report for 2010. I would therefore like to request CESR for an update of its previous report on the situation in Canada, South Korea, China and India.

Probably a split can be made between these four countries. As Canada and South Korea are scheduled to adopt shortly full IFRS, a desk review would seem to suffice. However, as far as India and China are concerned the situation appeared quite different in the past and this seems to merit on-the-spot investigations. In the case of China, particular attention should be placed on the level of *application* of the Chinese Accounting Standards for Business Enterprises (ASBEs). In the case of India, there is an ambiguity

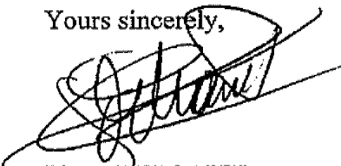
both on the level of convergence of Indian GAAP with IFRS, and also on the quality of application of Indian GAAP.

Therefore, we would very much welcome receiving a CESR report by the end of October of this year, which should allow the Commission to report to the European Parliament and the Member States by the end of this year or at the latest early next year. The CESR report will constitute a key element for the EU to assess the situation in these countries and to decide what kind of possible legislative measures should be taken by December 2011. At this stage, I cannot exclude that in view of your (end of) October report, and the possible policy reactions by one or more of these countries, we may need to ask CESR to further update its report in the second quarter of 2011.

I look forward to a continuation of the excellent cooperation between CESR and the Commission on this important subject and I have asked my services to share all relevant country-information with the staff of the CESR Secretariat.

Please do not hesitate to contact me, if you would like to have further information.

Yours sincerely,

A handwritten signature in black ink, which appears to be 'P. Delsaux', is written over a circular stamp.

Pierre DELSAUX