



Providing solutions that count

Harmonization of Accounting Standards Within the Caribbean and the Implications for the CSME

Institute of Chartered Accountants of the Caribbean
23rd Annual Conference – Belize

June 24, 2005

David Raggay B.Sc., M.Sc., C.A

david.raggay@ifrs-consultants.com



Providing solutions that count

Harmonization of Accounting Practices

- Involves a “clustering” about some common point
- Does not adopt a one-size-fits-all approach
- Accommodates national differences



Providing solutions that count

Harmonization

- **De jure - rules based, standards, etc..
E.G. 4th and 7th EU directives**
- **De facto - market forces persuade
companies to harmonise by preparing
financial reports that approximate to
those the market wants e.g.
IAS/IOSCO**



Providing solutions that count

Some Benefits of Harmonization

- **Efficient use of resources globally**
- **Foreign subsidiaries**
- **Stock exchanges listing requirements**
- **Easier for accountants, auditors etc**
- **Developing countries**
- **Taxing MNCs**
- **Encourage MNCs to apply common policies**



Providing solutions that count

Capital Markets

Accounting information is expected to provide important characteristics of:

- **Accuracy**
- **Comparability and**
- **Transparency**

This is achieved by means of high-quality accounting standards and effective enforcement mechanisms



Providing solutions that count

Capital Markets

Increasing Globalization:

- **Cross-border listings**
- **Cross-border markets**
- **On-line investing**



Providing solutions that count

World Capital Markets as at April 2005

	Issuers	Foriegn
■ NYSE	1,834	454
■ NASDAQ	2,884	331
■ Euronext	1,302	319
■ London Stock Exch.	2,942	349
■ Switzerland	347	118
■ Australia	1,624	69
■ Singapore	652	102



World Capital Markets

Providing solutions that count

Non-US Companies Registered with the US SEC

- **1,240 companies from 55 countries
at 31 December 2004**



Providing solutions that count

Harmonization of Accounting Practices

- **The current world trend is towards convergence**
 - **Moving together toward a common result**
 - **Overall IASB agenda**
 - **Specific IASB/FASB project**



Providing solutions that count

Harmonization vs Convergence



Harmonization

Convergence



Providing solutions that count

Adoption of IFRS

- **May 2000: (IOSCO) recommended that its members “permit incoming multinational issuers to use the 30 “IASB 2000” standards to prepare their financial statements for cross-border offerings and listings .”**



Providing solutions that count

Adoption of IFRS

- **May 2002, IOSCO survey: “many jurisdictions permit incoming issuers to use IAS, and others are actively working towards this end.”**



Providing solutions that count

IFRS Convergence

Two major sets of GAAP

- IFRS
- US GAAP

Efforts currently underway to achieve convergence between IFRS and US GAAP



Providing solutions that count

IFRS Convergence

- **IAS/IFRS are the primary accounting standards in use**
- **Over 90 countries currently require IAS/IFRS for domestic listed companies**



Providing solutions that count

IFRS Convergence

Anomalies

- **Australia**
- **New Zealand**
- **EU**



Providing solutions that count

International Convergence

Major problems (Wong Report, Sept. 2004):

- **Understanding the meaning of International Convergence**
- **Translation of International Standards**
- **Complexity and structure of International Standards**



Providing solutions that count

International Convergence

**Major problems (Wong Report, Sept. 2004)
*continued:***

- **Frequency, volume and complexity of Changes to International standards**
- **Challenges for SMEs and SMPs**
- **Potential Knowledge Shortfall and**
- **Implications of Endorsement of IFRS**



Providing solutions that count

The Caribbean

Dr. Eric St. Cyr:

- **“Critical facts” which “Set limits to the nature and possibilities for economic performance in the Caribbean“**
- **Geography**
 - **issues that “Pertain to location, size and insular configuration”**



Providing solutions that count

The Caribbean

CARICOM is vulnerable due to a lack of "critical mass" and needs to widen its membership. In order to facilitate this increase the critical mass two concerns have been identified:

- **Intra-Regional Corporate Integration and**
- **Financial Integration**

Described as having being "conceived as an instrument to facilitate economic development of the Member States in an increasingly liberalised and globalised international environment".

The major components of the CSME are:

- **Free movement of services**
- **Free movement of goods**
- **The free movement of people and**
- **Free movement of capital**



Providing solutions that count

Financial Reporting In The Caribbean

- **As of June 2003 IFRSs are the required Reporting Standards for all those Caribbean countries whose institutes are members of the Institute of Chartered Accountants of the Caribbean, with the exception and St.Kitts-Nevis.**



Providing solutions that count

Financial Reporting In The Caribbean

- **The Accounting profession in the Caribbean is largely organized into volunteer organizations**
- **We do not currently have the resources for ongoing research and the development of indigenous standards**



Regulatory Framework

Providing solutions that count

- **Similar common-law background**
- **Accounting Institutes in most countries**
- **Legislative enforcement of the application of IFRS in most countries**



Regulatory Framework

Providing solutions that count

- **Very little in terms of formal programs for enforcement of accounting and auditing standards**
- **Great reliance on disciplinary committees (whistle blowers) to address issues of non-compliance**



Providing solutions that count

Financial Reporting In The Caribbean

Compliance Issues

- **Inappropriate application of standards (IAS 16, 39)**
- **Inadequate or inappropriate disclosure (IAS 12, 16, 19, 39)**



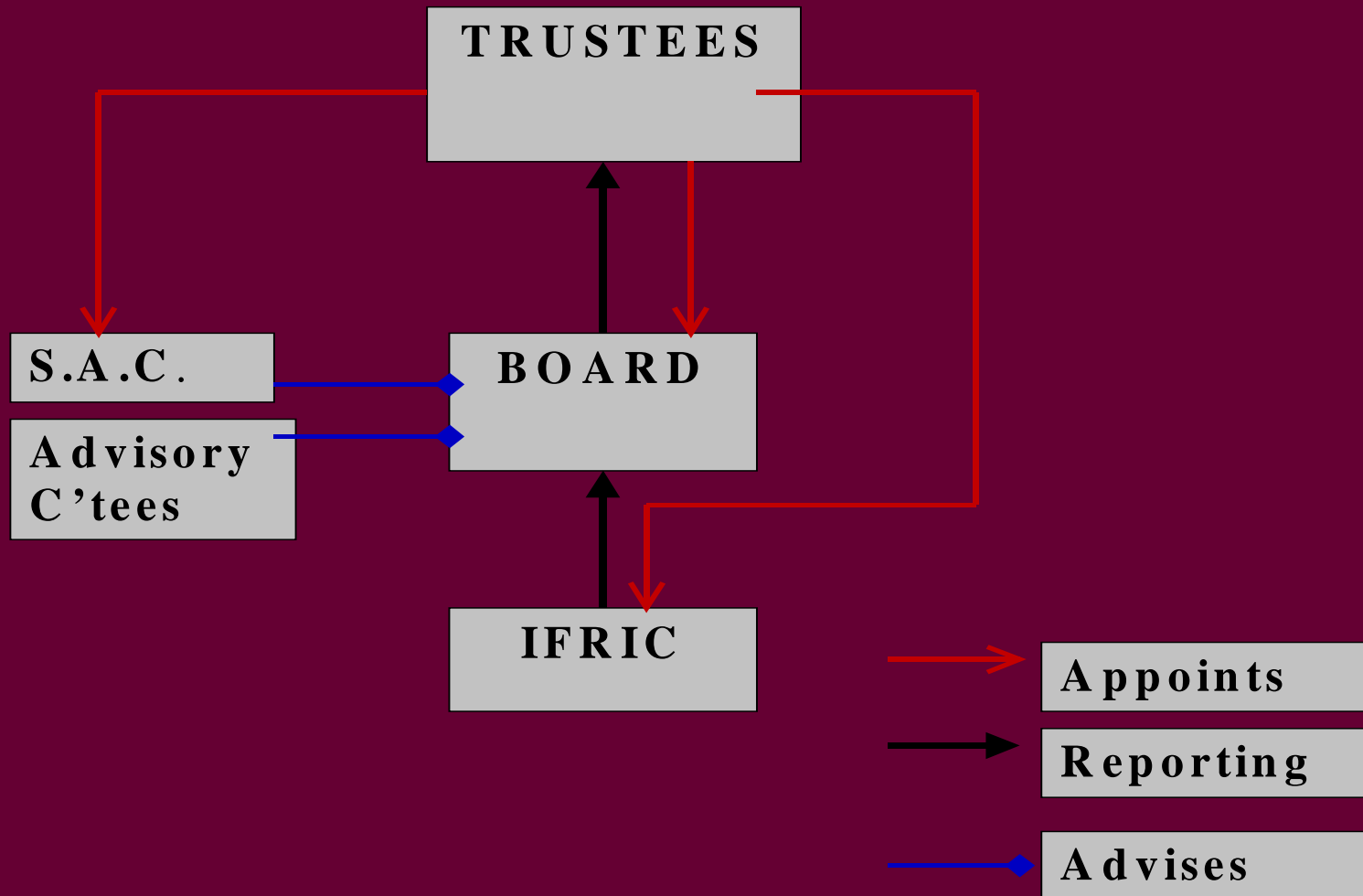
Providing solutions that count

The IASB

- Committed to developing:.... **“a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements”**
- **“Cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.”**

Structure Of The IASB

Providing solutions that count





Structure of the IASB

Providing solutions that count

■ Founding Members

Australia

Canada

France

Germany

Japan

The Netherlands

Mexico

UK/Ireland

USA



Structure of the IASB

Providing solutions that count

- **Although the Board has a process of due diligence, the reality is that few comments originate from the Caribbean.**
- **Full use is not made of our representation**
 - **Voluntary nature of the Caribbean accounting profession.**
 - **Driven by the lack of critical mass in the membership of our accounting institutes which are primarily financed through membership dues.**



Convergence With IFRS

Providing solutions that count

- **IFRS have been created largely for transnational enterprises operating from developed-country bases**
- **It is difficult to apply them to emerging/developing countries and even more difficult to do so to SMEs there**



Convergence With IFRS

Providing solutions that count

- **Illiquid capital markets**
 - **Equities**
 - **Bonds**
- **Difficulty in estimating fair values**



Providing solutions that count

Practice Monitoring

- **IFAC**
 - **Member bodies should develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with those policies.**



Providing solutions that count

Practice Monitoring

- **IFAC**
 - **Member bodies should establish quality review programs designed to evaluate whether firms of practicing accountants have complied with relevant professional standards for assurance engagements .**



Providing solutions that count

International Financial Reporting

- **In most English-speaking Caribbean countries, IFRS apply to all companies, whether listed or not**



Providing solutions that count

Why address the Financial Reporting Needs of SMEs

- **Caribbean economies are largely characterized by small and medium enterprises (SMEs).**
 - **Large in number**
 - **Impact on the labour market**
 - **Contribution to the economy**



Providing solutions that count

Why Address the Financial Reporting Needs of SMEs

**Number of listed companies in formal
stock exchanges**

Issuers Crosslisted

▪ Bahamas	19	1
▪ Barbados	26	5
▪ Jamaica	46	4
▪ Trinidad and Tobago	33	8



Providing solutions that count

Financial Reporting Needs of SMEs

- **Cost of capital**
 - Listing requirements are not equivalent to Accounting requirements
 - SMEs typically have significant difficulties in accessing bank and trade credit
 - (FASB 1983 report)- costs of preparation sometimes exceed the benefits to be derived



Providing solutions that count

Financial Reporting Needs of SMEs

- **Users and Uses**
 - **In the case of the SMEs, the public will rarely be a user**
 - **General-purpose financial statements will still be necessary**



Providing solutions that count

Financial Reporting Needs of SMEs

■ User Needs

- *Investors* – In the SME environment, these are often the same as
- *Lenders* – Banks and other sources of private finance are the primary capital
- *Governments and their agencies* – interested in the allocation of development resources to SMEs. They also require information in order to regulate their activities, determine taxation policies etc



Providing solutions that count

Financial Reporting Needs of SMEs

- **User Needs**
 - *Suppliers and other trade creditors* – interested in information that enables them to determine whether amounts owing to them will be paid when due
 - *Customers* – have an interest in information about the continuance of an enterprise, especially when they have a long-term
 - *Employees* – interested in information about the stability and profitability of their employers and in information, which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.



Providing solutions that count

International Financial Reporting

- **Research indicates that no major developed country requires that SMEs fully comply with GAAP**



Providing solutions that count

Issues to Consider

IASs of concern to SMEs

- **IAS12 - Income Taxes**
- **IAS 17 – Leases**
- **IAS 19 - Employee Benefits**
- **IAS 36 -Asset impairment**
- **IAS 32/39**



Providing solutions that count

Issues to Consider

IAS Issues

Many of the disclosures required by IAS are considered to be “over the top” in the case of SMEs.



Providing solutions that count

Issues to Consider

IAS Issues.

There is doubt as to the usefulness of fair values to users of SME financial statements.



Results of Consultation

Providing solutions that count

Need for concessions for SMEs.

There is support for disclosure and presentation as well as recognition and measurement concessions. There was a mixed reaction as to whether SME standards should be presented in a separate volume or together with existing IFRS.



Providing solutions that count

Development of the IASB Project

- **April 1998 - project on “Emerging Economies” added to the Board’s Agenda**
- **June, 2002 – “Accounting and financial reporting by small and medium-sized entities (SME) and in emerging and transition economies”**



National Standard-Setters

Providing solutions that count

- 1. Australia**
- 2. Canada**
- 3. China**
- 4. EFRAG**
- 5. France**
- 6. Germany Hong Kong**
- 7. Hungary**
- 8. Indonesia**



Providing solutions that count

National Standard-Setters cont'd

- 9. Italy**
- 10. Iran**
- 11. Korea**
- 12. Malaysia**
- 13. New Zealand**
- 14. Norway**
- 15. Pakistan**
- 16. Poland**



Providing solutions that count

National Standard-Setters cont'd

- 17. Russia**
- 18. Singapore**
- 19. South Africa**
- 20. Spain**
- 21. Sri Lanka**
- 22. Sweden**
- 23. Thailand**
- 24. United Kingdom**
- 25. United States**



Providing solutions that count

Responses to 2004 Discussion Paper

- **PV 7.3: There would be a rebuttable presumption that no modifications would be made to the recognition and measurement principles in IFRSs.**
 - **65% of respondents to DP did not agree.**
 - **Felt recognition and measurement modifications are needed.**
 - **Concerned that IASB is prejudging.**
 - **Cited growing measurement complexities in IFRSs.**



Providing solutions that count

January 2005 Board Decisions

- The Board decided, inter alia, that
 - Recognition and measurement simplifications will be considered— based on user needs and cost/benefit.
 - “Mandatory fallback” was approved
 - “Optional fallback” was not approved



Providing solutions that count

January 2005 Board Decisions

- The Board decided, inter alia, that
 - IASB Standards for SMEs will focus on financial reporting by **those non-publicly accountable entities that have external users of their financial statements** (ie users other than owner-managers). This is because the IASB *Framework for the Preparation and Presentation of Financial Statements* (the IASB Framework) does not deal with management reporting or regulatory reporting. Jurisdictions could, of course, choose to permit or require them for all SMEs, including very small ones.



Providing solutions that count

February 2005 Board Decisions

- **The Board approved a project plan outlining steps to create standards for what were briefly called **Non-publicly Accountable Entities (NPAE)**, but...**
 - **Terminology was not widely understood.**
 - **The term was considered to be possibly have negative connotations (not accountable?).**
- **The Board approved the expansion of the Working Group to include preparers and users of financial statements of **Non-publicly Accountable Entities****



Providing solutions that count

February 2005 Board Decisions

- **Project Plan key elements:**
 - **31 March 2005:**
 - **Brief questionnaire to identify recognition and measurement issues for discussion at round tables.**
 - **30 June 2005:**
 - **Questionnaire comment deadline (those received by 31 May will be analysed for June SAC and Working Group meetings).**



Providing solutions that count

February 2005 Board Decisions

- **Project Plan key elements:**
 - **June 2005 – November 2005:**
 - Discussion with SAC, WG and Round Table groups on:
 - Recognition and Measurement issues
 - Presentation and Disclosure issues
 - **March 2006:**
 - Exposure draft
 - **2007**
 - Final Standards effective January 1, 2008



Providing solutions that count

Impact

- **The current focus on “those non-publicly accountable entities that have external users of their financial statements” is biased towards the larger companies**
- **The standards developed using this focus are unlikely to address the needs of the SMEs in the English-speaking Caribbean**



Providing solutions that count

Impact

- **We find support for this view in a recent statement issued by CILEA who “deemed it unavoidable to make a clear distinction between the rules to be applied to listed companies operating on the world stock-markets and to other big entities, and to those to be applied to all other entities, mainly SMEs.”**



Providing solutions that count

Impact

- **This was also reportedly the sentiment expressed at the IFAC SME/SMP and Developing Nations Conference held in Prague in March 2005**



Providing solutions that count

Conclusions and Recommendations

- **Lack of significant influence at decision-making levels of the IASB.**
- **Ineffective use of existing opportunities.**
- **While the level of convergence with IFRS in published financial statements is generally acceptable, there is room for improvement.**
- **We and others may have no choice but to develop our own standards for SMEs if the current trend at the IASB continues**



Providing solutions that count

Conclusions and Recommendations

- **Adoption and enforcement of a system of Quality Control for public accountants and auditors**
- **Adopting standardized curriculums for accounting degrees at UWI and enforcing mandatory CPD**
- **Educating management, investors, bankers, creditors and the public in general of the benefit that will accrue from credible financial information**



Providing solutions that count

Conclusions and Recommendations

- **ICAC members should adopt standardized examinations in Company Law and Taxation**
- **ICAC members should establish an independent regulatory body that sets the requirements for licensing Caribbean accountants in accordance with IFAC guidelines**



Providing solutions that count

Conclusions and Recommendations

- **Co-operation among the following in order to achieve enforcement:**
 - **The ICAC**
 - **National Accounting Institutes**
 - **Regional and International lending institutions**
 - **National regulators, financial institutions and government institutions**

Conclusions and Recommendations

- **ICAC should consider fostering close working relationships with other regional accounting bodies**
- **Concerted efforts should be made to make better use of existing representation on the IASB SME Working Group**



Providing solutions that count

Conclusions and Recommendations

We find support for these recommendations from:

- **Sotomayer (2001)**
- **Wong (2004)**



Providing solutions that count

THANK YOU