The role of the IASB in international financial reporting

Ann Tarca IASB Member
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1. **Scene setting**: IFRS Foundation, the IASB and IFRS Standards

2. **Benefits of IFRS Standards**: Academic evidence – cross-border investment

3. **IFRS Foundation and other organisations**: Rationale for co-operation
To develop IFRS® Standards that bring transparency, accountability and efficiency to financial markets around the world.

Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.
IFRS Foundation – 3 tier structure

Monitoring Board

Trustees

International Accounting Standards Board

Public accountability

Governance & oversight

Independent standard-setting
Use of standards IFRS and IFRS for SMEs

- 87% of 166 jurisdictions assessed require the use of IFRS Standards.
- 75% of 20 G20 economies require the use of IFRS Standards.
- 52% of 166 jurisdictions assessed require or permit the use of the IFRS for SMEs Standard.
Use of IFRS by region 2017

The diagram illustrates the number of jurisdictions using International Financial Reporting Standards (IFRS) by region. The regions compared are Africa, Americas, Asia-Oceania, Europe, and Middle East. The bars show the number of jurisdictions that require IFRS standards, permit IFRS standards, or neither require nor permit IFRS standards.
## Remaining major economies

<table>
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<th>Country</th>
<th>Status</th>
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| China         | • ‘Substantially converged’ with IFRS  
• Most dual-listed Chinese companies already produce IFRS financial statements  
• October 2015 ‘Beijing Statement’ reaffirms China’s commitment to achieve full convergence |
| India         | • Ind AS ‘substantially converged’ with IFRS                                                                                             |
| Japan         | • Permit voluntary use of IFRS, ≈30% of total market cap now report using IFRS                                                            |
| United States | • 500+ non-US companies report using IFRS  
• Domestic consideration stalled                                                                                                          |
Benefits of adoption of IFRS Standards
Evidence of benefits of adoption of IFRS Standards

- From early studies
  - De George and Shivakumar RAS 2016
- Improved transparency
- Lower cost of capital
- Improved cross-country investment
- Better comparability of financial reports
- Increased following by analysts
Benefits can vary…

• Benefits vary between firms and countries
• Observed benefits may reflect country setting and institutions
  – Extent of change from prior GAAP
  – Managerial incentives
  – Education and training
  – Legal institutions and enforcement of accounting standards
• Eg greater cross-border investment when implementation of IFRS ‘improves (industry) uniformity’ and is ‘credible’ [DeFond Hu, Hung and Li, JAE 2011]
Cross-border investment

[Beneish, Miller and Yohn JAAP 2015]

• Increase in foreign equity investment
  – In countries with higher: governance quality, economic
development and creditor rights (prior to adoption)
  – Primarily from US

• Increase in foreign debt investment in all adopting
countries
  – From US and other non-adopting countries

• Increase in investment reflects increase in financial
  reporting quality (rather than comparability)
Cross-border investment

- Stock ownership by foreign mutual funds increases with voluntary adoption of IAS [Covrig 2007]
- Adoption IFRS Standards decreases US investors home bias [Khurana and Michas 2011]
- Proportion of institutional ownership and number of investors increased in countries adopting IFRS [Florou and Pope 2012]
- Foreign mutual funds increased level of ownership in IFRS adopting countries [Yu and Wahid 2014]
IFRS Foundation

Working with other organisations
IFRS Foundation – working co-operatively

- World Bank
- IOSCO, national security market regulators
- Basel Committee (Accounting Expert Group)
- Financial Stability Board
- EFRAG
World Bank and IFRS Foundation - Overlapping objectives

IFRS Foundation
Standards that foster trust, growth and long term financial stability in the global economy

Unreliable financial information can restrict access to finance
Strong financial markets boost economic development
Investor trust leads to stronger capital markets

World Bank
End extreme poverty within a generation and boost shared prosperity
In conclusion...

• Benefits of adoption of IFRS Standards depend upon:
  – High quality standards
  – Implementation support
  – Institutional setting in adopting countries

• IFRS Foundation works with a range of organisations to produce high quality standards and to support effective implementation
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