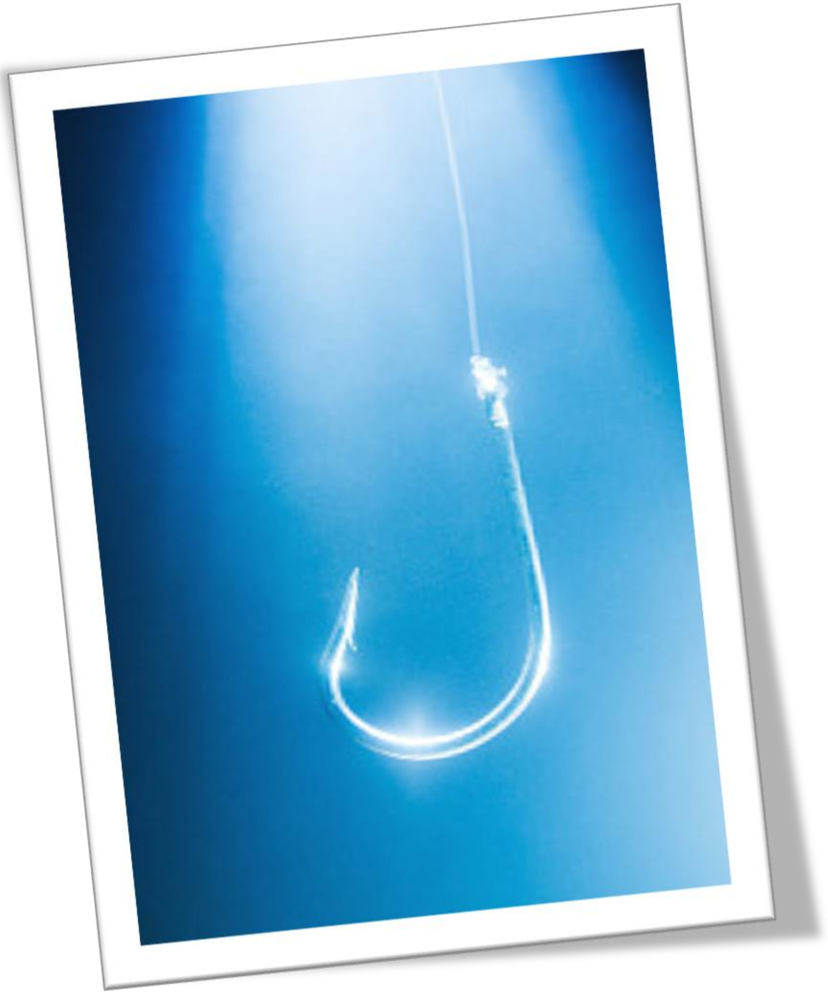
International Financial Reporting Standards Conference

IFRS regulatory issues

August 2016

Why are we discussing this topic?

- To obtain an understanding of regulatory perspective on the application of IFRS
- Practical application can be complex



Agenda

What to expect from the session

- Approach to regulating IFRS
- Collaboration with the regulators/ICPAK
- Specific issues identified

Approach to regulating IFRS

What are the advantages of converting to IFRS:

- Businesses present financial statements on same basis as its foreign competitors
- Makes comparisons easier
- Companies with subsidiaries in countries that permit IFRS use one accounting language company-wide
- Companies may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS
- Companies may also benefit by using IFRS if they wish to raise capital abroad
- Facilitates Good Governance & accountability

Approach to regulating IFRS (cont)

- All the countries within the East Africa region have adopted IFRS
- The local institutes are mandated to oversee the implementation of IFRS in the respective countries
- Through the Council, the Institute has delegated this role to the Professional Standards Committee (PSC) to provide guidance on the implementation of IFRS
- The PSC collaborates with the regulators, practioners and preparers of the financial statements to harmonise the application of IFRSs

ICPAK Collaboration with regulators

The main regulations we see in the market are:

- The Capital Markets Authority
- Central Banks
- Insurance Regulatory Authority
- SASRA
- Revenue Authorities
- Companies Act
- Competition Authority
- Unclaimed Financial Assets Authority

ICPAK Collaboration with regulators (Cont)

Areas of collaboration:

- Review of exposure drafts and making comments on areas that may conflict with regulations
- IFRS trainings/workshops
- Lobbying for specific matters on regulations especially taxes
- Joint conferences with the regulators
- IFRS technical guidance
- Awareness conferences/meetings

Specific issues identified – Central Banks

- Central Banks
  - Central Banks requires impairment losses to be determined based on a set % of loans balances having certain characteristics e.g. age rather than actual incurred losses
  - In addition banks are required to suspend interest on non performing accounts
  - The aggressive approach to impairment in some instances results in impairment losses in excess of incurred losses as determined under IFRS
  - The approach adopted by the Central Banks is not permissible under IFRS

Specific issues identified – Central Banks (Cont)

- Central Banks (continued)
  - Banks therefore reports the impairment losses under IFRS
  - To comply with Central Bank requirements, any excess impairment above the amount determined under IFRS is recognized by transferring amounts from retained earnings to a separate category of equity – Credit risk reserve
  - The same approach noted above applies to SASRA
  - In Tanzania, Quarterly Financial Reports for Banks are not compliant with IAS 34
  - NBAA is in discussion with BOT to mandate application of IAS 34 for all interim/quarterly reports published for use by general public

Specific issues identified – Income Tax

- Income Tax
  - For purposes of corporation tax the revenue authorities recognizes impairment losses as allowable when the following conditions are met:
    1. Loss of contractual right through a court order
    2. No form of security is realizable or security has been realized and proceeds could not cover entire amount
    3. Debtor is insolvent or bankrupt
    4. Cost of recovering debt exceeds the debt
    5. Efforts to recover the debt are abandoned for another reasonable cause

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Specific issues identified – Income Tax (cont)

- Income Tax (Continued)
  - IFRS requires impairment losses to be determined by comparing the carrying amount to the estimated future cash flows discounted to the present value.
  - The revenue authority is yet to harmonise its requirement with the IFRS requirement

- Others
  - Deemed interest
  - Investments outside municipalities – Nairobi, Kisumu, Mombasa

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Specific issues identified – CMA

- Capital Markets Authority
  - Generally CMA regulations are largely aligned to IFRS
  - Specific disclosures under CMA relates to directors remuneration
  - The Institute is currently in discussion with the CMA on the Corporate Governance Guidelines & New Companies Act which are effective in 2017

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Specific issues identified – IRA

- Insurance Regulatory Authority
  - Generally regulations are largely aligned to IFRS
  - Specific issue that the PSC has dealt with in the past was recognition of deferred tax on Life Fund
  - PSC facilitated an awareness session with the regulator and CFO of insurance companies

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Specific issues identified – ISA's

- New Auditors report
  - Effective for audits of financial statements for periods ending on or after 15 December 2016
  - Audit reports on listed entity financial statements will include "key audit matters" (KAMs) – a significant change
  - The PSC has engaged all the stake holders concerned to obtain clarity and views from the regulators before implementation
  - In Tanzania NBAA is debating on extending the requirement to include "KAMs in audit reports of ALL Public Interest Entities as opposed to only listed entities

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Challenges in implementing of IFRS

Some of the challenges we see in the implementation of IFRS:

- Technical difficulties in understanding and interpreting IFRS requirements
- Inability of MIS to accurately record, maintain and produce accurate financial reports related to IFRS
- Financial constraints for training and purchase of IFRS materials

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Q & A Session

Thank you

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