

1 INTRODUCTION

This report is submitted to the Confederation of Asian and Pacific Accountants (CAPA). CAPA in its efforts to play a more active role in the initiatives of other international organisations had commissioned an exploratory study regarding the issue of differential reporting with a particular focus on the recent proposed guidelines issued by the Intergovernmental Working Group on International Accounting Standards and Reporting (ISAR). The findings of the research and the implications thereon for the proposed ISAR Guidelines are discussed in this report.

With increasing globalisation and internationalisation, the acceptance of International Accounting Standards (IASs)¹ has been dramatic. Many countries such as Australia, New Zealand and the nation states of the European Union are looking at adoption of IFRSs by 2004/5. The imposition of IFRSs in many countries are on the larger enterprises. However, in a majority of the developing countries IFRSs are required by law to be applied to all entities incorporated as companies under their respective corporate laws. Increased complexity of business transactions in this information age coupled with the focus of the IFRSs to reflect useful information to users of financial statements has resulted in very complex, technically superior and sometimes over sophisticated IFRSs which are perceived to have added to the “standards overload” situation. Increasingly sentiments are raised that such standards may impose reporting burdens on smaller enterprises.

This report discusses the initiatives leading to the suggestion of the adoption of a differential reporting regime by countries if they so desire. It also addresses the significance of such a move for small and medium sized enterprises (SMEs) and particularly in the developing countries.

The discussion is organised in 5 sections:

- 1 First section provides the background of the development of differential reporting practices and explores different approaches to differential reporting;
- 2 & 3 Second and Third sections discusses the findings of an exploratory study carried out to obtain perceptions of participants at two international conferences held in Hong Kong in November 2002;
- 4 Fourth section provides some comments on the proposed ISAR guidelines based on feedback and discussions with respondents in the exploratory study;
- 5 Fifth section provides recommendations that can accelerate the way forward for differential reporting regimes.

¹ Now referred to as International Financial Reporting Standards (IFRSs). Throughout the report the words IASs and IFRSs are used interchangeably.