

Adoption and Application of IFRS in Pakistan



From the Desk of Technical Services

Financial Reporting

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Introduction

IFRS the global accounting standards

International Accounting Standards Board introduces International Financial Reporting Standards (IFRS) as a composition of IFRS Standards, IAS Standards and Interpretations developed by IFRS Interpretations Committee (previously Standards Interpretations Committee/SIC).

IFRS have made a significant progress towards becoming the global accounting standards, and since 2001 an ever-increasing number of jurisdictions have adopted IFRS. Presently, IFRS are used in over 144 international jurisdictions.

Our journey towards IFRS

Pakistan IFRS adoption story is as old as IFRS (previously, International Accounting Standards). These standards have been made applicable and implemented since the very early years of their issuance by International Accounting Standards Committee.

In Pakistan's journey towards IFRS, the Institute has been at forefront not only in the adoption process of IFRS but also in facilitating the implementation of these standards. The Institute has also formed the multi-stakeholder Accounting Standards Board (the ASB) with the objective to strengthen Pakistan financial reporting in the public interest, through collaborative and consultative approach.

In recent years the IFRS landscape has significantly changed with the issue of new standards on financial instruments, revenue, leases and insurance contracts. Companies in Pakistan have implemented the new IFRS of financial instruments, revenue and leases. While the adoption of new insurance standard (IFRS 17 *Insurance Contracts*) is under consideration of Securities and Exchange Commission of Pakistan (SECP).

SECP, the corporate regulator and State Bank of Pakistan (SBP), the financial sector regulator, have provided certain exemptions from adopted IFRS. These exemptions provide preparers of financial statements with an opportunity to prepare financial statements without incorporating the requirements of a particular standard, subject to fulfillment of conditions of availing such exemptions.

The ASB supports elimination of divergences from IFRS. Through consultative approach, the ASB has been actively playing its role in aligning Pakistan financial reporting regime with IFRS. Now for elimination of differences from IFRS and effective implementation of accounting requirements, more focused and collective combination of extensive consultation prior to adoption of IFRS, provision of sufficient time period for implementation of IFRS and discontinuance of earlier granted IFRS exemptions through grandfathering approach is being followed.

Purpose of this publication

This document has been prepared by the Institute's Technical Services team to facilitate you in evaluating the applicability of IFRS under the Companies Act, 2017.

What is included in this publication

The publication would provide you with:

- A snapshot of IFRS adoption status of Pakistan.
- List of new IFRS (including amendments to IFRS) applicable to 31 December 2019 financial statements.
- Details of exemptions from IFRS granted by SECP and SBP.
- Application dates of currently granted exemptions from IFRS.
- Financial statement considerations in adopting new and revised IFRS requirements.
- List of IFRS adopted in Pakistan as of 31 December 2019.

For additional details on IFRS, exemptions granted from IFRS and application of IFRS, you would need to refer to the relevant literature. Further, the information provided in this document is for general guidance only and may change from time to time.

We hope you find this publication helpful.

Farrukh Rehman
Chairman Accounting Standards Board

Sohail Malik
Director Technical Services

The financial sector has been provided with a clear pathway and timeline for the implementation of IFRS 9.

The divergence from lease accounting (previously, IFRIC 4 exemption) has been discontinued through grandfathering approach. Making the new leasing standard (IFRS 16) applicable to all arrangements of companies, including power purchase agreements of power sector entities.

IFRS adoption status

The Companies Act, 2017 states that companies shall, in accordance with the applicability provisions, prepare financial statements applying accounting and reporting standards, obtain assurance on their financial statements and also furnish them to SECP.

The Companies Act provides differential financial reporting frameworks for the companies depending on their nature and size.

All public-interest companies large-sized companies, large-sized not for profit organizations and large-sized branches of foreign companies registered under the Companies Act are required to prepare financial statements in accordance with the IFRS.

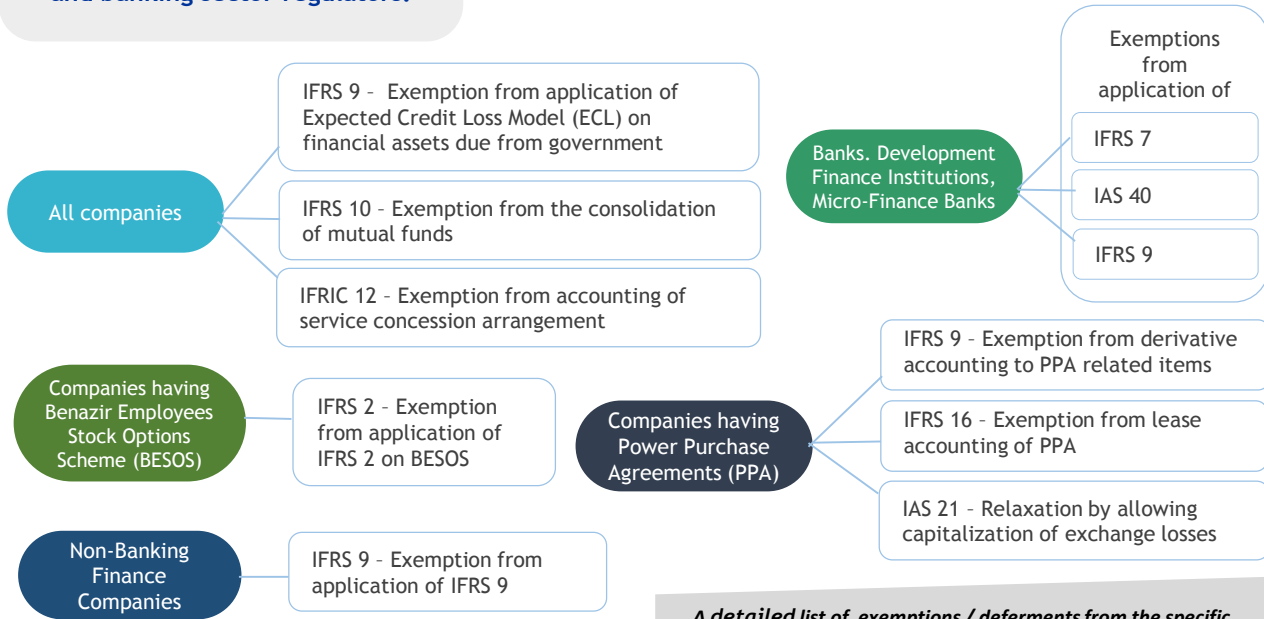
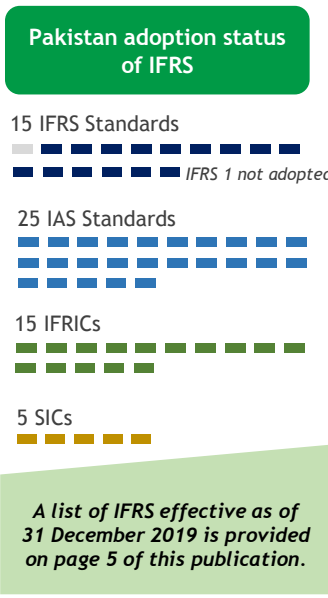
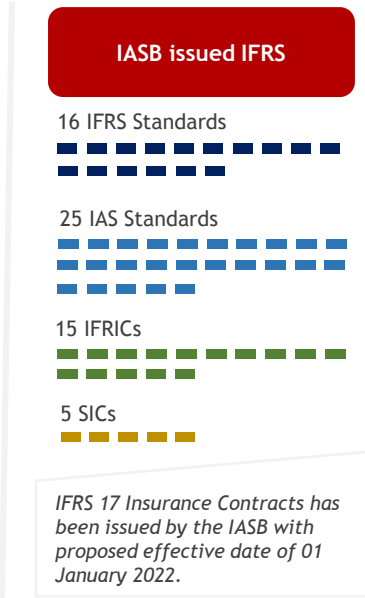
SECP on the recommendations of Institute has adopted all effective IFRS, except IFRS 1 *First-time Adoption of International Financial Reporting Standards*. IFRS 1 can only be implemented when all the differences between current Pakistan financial reporting requirements and IFRS are removed.

SECP adopts IFRS on the recommendation of the Institute of Chartered Accountants of Pakistan.

Under Companies Act, companies can also opt to prepare financial statements in accordance with IFRS issued by IASB, including IFRS 1.

SECP and SBP have prescribed the formats of financial statements of insurance companies and banks, respectively.

Exemptions / deferrals from requirements of IFRS have been granted to different sectors by SECP and SBP being the corporate and banking sector regulators.



A detailed list of exemptions / deferrals from the specific requirements of IFRS is provided on page 4 of this publication.

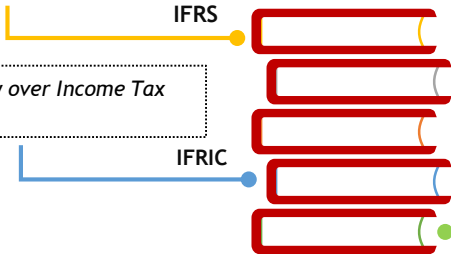
New IFRS requirements

Several new IFRS and amendments to IFRS are effective for 2019 interim or annual periods for calendar-year entities.

New requirements for annual period beginning on or after 01 January 2019

IFRS 14 *Regulatory Deferral Accounts*
IFRS 16 *Leases*

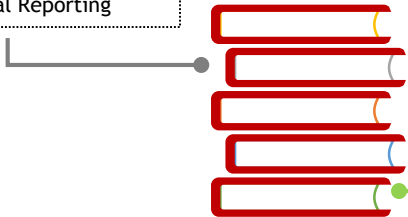
IFRIC 23 *Uncertainty over Income Tax Treatments*



- IAS 12 - Income tax consequences of payments on financial instruments classified as equity
- IAS 19 - Plan amendment, curtailment or settlement
- IAS 23 - Borrowing costs eligible for capitalization
- IAS 28 - Long-term interests in associates and joint ventures
- IFRS 3 - Previously held interest in a joint operation
- IFRS 9 - Prepayment features with negative compensation
- IFRS 11 - Previously held interest in a joint operation

New requirements for annual period beginning on or after 01 January 2020

Amendments to the Conceptual Framework for Financial Reporting



- IFRS 3 - Definition of a Business
- IFRS 7, IFRS 9, and IAS 39 - Interest rate benchmark reform
- IAS 1 and IAS 8 - Definition of Material

Exemptions / deferrals from IFRS (granted by SECP and SBP) would also end in coming years

<p>IFRS 16, IFRS 9 and IAS 21 specific application is now applicable to all companies including those having PPAs signed on or after 01 January 2019</p>	<p>IFRS 9 to be applied by NBFCs in the financial statements prepared on or after 30 June 2020</p>	<p>IFRS 9 to be applied by banks, Development Finance Institutions and Micro-Finance Banks from 01 January 2021</p>	<p>IFRS 9 (ECL model on the financial assets due from Government) to be applied by all companies from 01 July 2021</p>
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Financial statement considerations in adopting new and revised IFRS requirements

Determination and updation of accounting policies

Consideration of transitional provisions

Restatement of basic and diluted earnings per share

Disclosures about changes in accounting policies

Third statement of financial position

IFRS exemptions / deferments

SECP and SBP have granted exemptions / deferments from the requirements of IFRS

**IFRS 2
Share Based Payments**

Certain State Owned Enterprises and non-State Owned Enterprises

SECP, through S.R.O. 587 (I)/2011 dated 7 June 2011, has deferred the applicability of IFRS 2 requirements for the accounting of the BESOS.

**IFRS 7
Financial Instruments: Disclosure**

Banks, Development Finance Institutions, Micro-Finance Banks

SECP, through S.R.O. 411(1)/2008 dated 28 April 2008, has deferred the applicability of IFRS 7 to the Banks and DFIs.

**IFRS 9
Financial Instruments**

Banks, Development Finance Institutions, Micro-Finance Banks

SBP, through BPRD Circular no. 04 dated 23 October 2019, has provided timeline for the implementation of IFRS 9. IFRS 9 would be applicable to the banks, DFIs and MFBs from 01 January 2021.

**IFRS 9
Financial Instruments**

All companies

SECP, through S.R.O. 985 (I)/2019 dated 02 September 2019, has granted companies a relaxation from the application of ECL model on the financial assets due from the government till June 2021.

**IFRS 9
Financial Instruments**

Non-Banking Finance Companies

SECP, through S.R.O. 1332(I)/2019 dated 07 November 2019, has provided timeline for the implementation of IFRS 9 to NBFCs. IFRS 9 is applicable to 30 June 2020 financial statements of NBFCs.

**IFRS 9
Financial Instruments**

All companies having power purchase agreements

SECP, through S.R.O. 986 (I)/2019 dated 02 September 2019 has granted exemption from the derivative accounting of IFRS 9 to all companies which have entered into power purchase arrangements before 01 January 2019.

**IFRS 10
Consolidated Financial Statements**

All companies

SECP, through S.R.O. 56(I)/2016 dated 28 January 2016, has directed that the requirement of consolidation under IFRS 10 is not applicable in the case of investments by companies in mutual funds managed under the trust structure..

**IFRS 16
Leases**

All companies having power purchase agreements

SECP, through S.R.O. 986 (I)/2019 dated 02 September 2019 has granted exemption from IFRS 16 to all companies to the extent of the power purchase arrangements executed before 01 January 2019.

**IAS 21
The Effects of Changes In Foreign Currency**

All companies having power purchase agreements

SECP, through S.R.O. 986 (I)/2019 dated 02 September 2019 has allowed capitalization of exchange losses to all companies that have power purchase arrangements executed before 01 January 2019.

**IAS 40
Investment Property**

Banks, Development Finance Institutions, Micro-Finance Banks

SBP, vide BSD circular letter no. 10 dated 26 August 2002, has deferred implementation of IAS 40 to banks, DFIs and MFBs.

**IFRIC 12
Service Concession Arrangement**

All companies

SECP, through S.R.O. No. 24(I)/2012 dated January 16, 2012, has granted waiver to all companies from application of IFRIC 12.

Certain relaxations from IFRS are time based to ensure effective implementation of IFRS requirements.

The expiration of relaxation periods would result in further alignment of Pakistan financial reporting regime with IFRS.

List of adopted IFRS

IFRS 2 *Share-based Payment*
IFRS 3 *Business Combinations*
IFRS 4 *Insurance Contracts*
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
IFRS 6 *Exploration for and Evaluation of Mineral Resources*
IFRS 7 *Financial Instruments: Disclosures*
IFRS 8 *Operating Segments*
IFRS 9 *Financial Instruments*
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 13 *Fair Value Measurement*
IFRS 14 *Regulatory Deferral Accounts*
IFRS 15 *Revenue from Contracts with Customers*
IFRS 16 *Leases*

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
IFRIC 10 *Interim Financial Reporting and Impairment*
IFRIC 12 *Service Concession Arrangements*
IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
IFRIC 17 *Distributions of Non-cash Assets to Owners*
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
IFRIC 21 *Levies*
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRS that have been superseded by another IFRS or withdrawn by IASB are not mentioned in the above list.

IFRS comprise of

IFRS

IAS

IFRIC

SIC

IAS 1 *Presentation of Financial Statements*
IAS 2 *Inventories*
IAS 7 *Statement of Cash Flows*
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 10 *Events after the Reporting Period*
IAS 12 *Income Taxes*
IAS 16 *Property, Plant and Equipment*
IAS 19 *Employee Benefits*
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
IAS 21 *The Effects of Changes in Foreign Exchange Rates*
IAS 23 *Borrowing Costs*
IAS 24 *Related Party Disclosures*
IAS 26 *Accounting and Reporting by Retirement Benefit Plans*
IAS 27 *Separate Financial Statements*
IAS 28 *Investments in Associates and Joint Ventures*
IAS 29 *Financial Reporting in Hyperinflationary Economies*
IAS 32 *Financial Instruments: Presentation*
IAS 33 *Earnings per Share*
IAS 34 *Interim Financial Reporting*
IAS 36 *Impairment of Assets*
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
IAS 38 *Intangible Assets*
IAS 39 *Financial Instruments: Recognition and Measurement*
IAS 40 *Investment Property*
IAS 41 *Agriculture*

SIC 7 *Introduction of the Euro*
SIC 10 *Government Assistance – No Specific Relation to Operating Activities*
SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
SIC 29 *Service Concession Arrangements: Disclosures*
SIC 32 *Intangible Assets – Web Site Costs*

All effective IFRS issued by IASB, except IFRS 1, are applicable in Pakistan.

IFRS 1 has not been adopted, owing to the exemptions / deferments from IFRS granted by SECP and SBP.