Comparison of Accounting Standards in CAREC Member Countries

The accounting standards can be seen as one of the most important elements for economic cooperation. The diversity of accounting standards in CAREC may lead to barriers that can influence the foreign direct investments and economic exchange in the region. In order to facilitate economic development and promote globalization in the region, CAREC members may need to consider the convergence of their accounting standards to the international standards. A set of globally consistent accounting standards will not only affect the economy of a country or a region but also impact the global socio-economic development (Li Gang, 2014). Thus, the convergence of accounting standards may further enhance the cooperation between member countries in CAREC. Though many nations in the region have begun to implement *International Financial Reporting Standards* (IFRS) and *IFRS for Small and Medium Enterprise*s (IFRS for SMEs), few of them still remain unclear about the adoption of IFRS. In order to understand better the current accounting state in the region, this report[1] explores the degree of IFRS adoption in CAREC.

[1] Disclaimer: This report emerged from a research conducted by accounting institutions and a joint workshop conducted by the CAREC Institute, the Shanghai National Accounting Institute (SNAI) of the PRC, and the Association of Chartered Certified Accountants (ACCA) during 16-20 December 2019 in Shanghai, the PRC. The views expressed in this paper are partially based on the workshop materials, and do not necessarily reflect the views or policies of the CAREC Institute, SNAI, ACCA, their funding entities, or Governing Councils. CAREC Institute, SNAI, or ACCA do not guarantee the accuracy of the data included in this paper and accept no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with the official terms of these entities.

I. The Degree of IFRS Adoption in Each Country

Table 2-1 The degree of IFRS adoption in CAREC member countries

Nation	Type of IFRS	Required	Permitted	Convergence	Yet to Apply
Pakistan	Full IFRS	√			
	IFRS for SMEs	√			
Azerbaijan	Full IFRS	√			
	IFRS for SMEs	√			
Georgia	Full IFRS	√			
	IFRS for SMEs	√			
Kazakhstan	Full IFRS	√			
	IFRS for SMEs		√		
Turkmenistan	Full IFRS	√			
	IFRS for SMEs		√		
Kyrgyzstan	Full IFRS	√			
	IFRS for SMEs		√		
Mongolia	Full IFRS	√			
	IFRS for SMEs				√
Afghanistan	Full IFRS	√			
	IFRS for SMEs				√
Uzbekistan	Full IFRS			√	
	IFRS for SMEs				√
Tajikistan	Full IFRS			√	
	IFRS for SMEs				√

According to the guidelines issued by the International Accounting Standards Board (IASB), there are two sets of IFRS. The first is the Full IFRS, which contains all the terms published by IASB. The second is IFRS for SMEs, a simplified version of IFRS designed specifically for SMEs. Currently, many countries have already fully adopted the Full IFRS; however, their SMEs are still not required, instead are allowed to choose between IFRS for SMEs or national accounting standards, In addition, several countries' SMEs are only offered the choice of using the national standards as the IFRS SMEs are still not adopted by the governing bodies. Given the current accounting state in the CAREC member countries, the assessment and categorization of the degree of the Full IFRS and IFRS for SMEs adoption for the CAREC member countries are needed.

This report classifies the degree of IFRS adoption into four categories.

The first category is “Required”. Countries in this category require their public interest entities to use IFRS or their small and medium enterprises to use IFRS for SMEs. To fit into this category, a country must implement IFRS and/or IFRS for SMEs without or with minimal modification and at the same time remain consistent with the original IFRS guidelines.

The second category “Permitted”. It refers to the dual practice of national accounting standards and IFRS. In this category entities are given the right to decide whether to use IFRS/IFRS for SMEs or to implement the national standards. In addition, same as the first category, to be considered as “Allowed” the level of the IFRS and/or IFRS for SMEs adoption must be complete or with minimal amendments.

The third category is “Converging”. In this category, even though the county is using the modified version of IFRS or IFRS for SMEs (that is greatly different from the original IFRS), it is in the process of negotiating and working with IASB to gradually eliminate the gap between local standards and IFRS.

The fourth category is "Yet to adopt", meaning the country is still implementing its national accounting standards with significant difference from IFRS.

Based on the above four categories, the degree of IFRS adoption by the ten CAREC countries is shown in Table 2-1.

In the next section, the degree of IFRS adoption, and the accounting standards and regulating bodies of each country will be briefly introduced.

II. Use of IFRS and IFRS for SMEs in CAREC Member Countries

1.Pakistan

Pakistan is one of the early adopters of IAS/IFRS. Although few IFRS standards are exempted or not used in Pakistan, the adoption of the Full IFRS and IFRS for SMEs is basically in line with IFRS. Thus, Pakistan is categorized as "Required".

In Pakistan, the responsibility for approving the accounting standards rests on the Securities and Exchange Commission of Pakistan (SECP). As for regulating the standards, SECP has commissioned such task to the Institute of Chartered Accountants of Pakistan (ICAP). The responsibilities of SECP is also documented in the *Companies Act 2017* which indicates that the accounting standards will be in effect only if it is approved by the SECP. As to the specific reporting requirements for the Pakistani entities, table 2-2 provides the list in accordance with the articles stated in the *Companies Act 2017*.

In Pakistan, IFRS for SMEs is also allowed to be used by the SMEs. Currently, except for listed companies, public interest entities, large enterprises, and small businesses, all medium-sized enterprises can choose to use IFRS or IFRS for SMEs. ICAP has also developed its national accounting standards, Accounting and Financial Reporting Regulations (AFRS for SSEs), that is applicable to Small Businesses. In addition, these small entities are also eligible to use the adopted IFRS or IFRS for SMEs[2]. In order to be defined as small businesses, the ones must meet the following criteria:

- paid capital does not exceed 25 million rupees, or
- annual turnover does not exceed 100 million rupees.

Furthermore, SECP also requires foreign-registered companies listed on the Pakistani stock market to use Pakistan-adopted IFRS standards. It’s worth noting that previously excluded standards (for example, IFRS 1, IFRS 7, IFRS 9, IFRS 14, IFRS 15, and IFRS 17) have already been or on the way to be implemented. For instance, IFRS 15 (Revenue from Contracts with Customers) came into effect on the 1 of July 2018. ICAP also suggests SCEP to approve the implementation of IFRS 14 (Regulatory Deferral Accounts) on 30 June 2019. IFRS 9 was previously scheduled to come to effect on the 1 July 2018; but it was requested by many companies to postpone the effective date to 30 June 2019 or further. However, entities who wish to adopt IFRS 9 before the set date is also allowed by the SECP. In addition, many banks have conducted an impact assessment of IFRS 9, indicating that the State Bank of Pakistan (SBP) will request all banks to adopt such standard.

What's more, banks and other financial companies that engage in investment financial services, discount services, and housing financial services in Pakistan are exempt from IFRS 7 (Financial Instruments: Disclosures). There are two possible causes for this exemption. First, IFRS 7 is related to the disclosure of financial instruments while IAS 39 (Financial Instruments: Recognition and Measurement, replaced by IFRS 9) emphasizes on the recognition and measurement of financial instruments. Thus, once IAS 39 was replaced, IFRS 7 was also exempt from being used. Second, the State Bank of Pakistan (SBP) has formulated a prudent regulation on the requirements to measure/approve financial instruments and for information disclosures. Thus, Pakistani companies can follow the standards set by the SBP.

Additionally, countries with the first adoption of IFRS usually will implement IFRS 1 (first time adoption of IFRS) to familiarize the procedures and be prepared for the adoption of IFRS. However, Pakistan is an exception. The reason is that Pakistan is one of the first countries to undertake IASB’s International Accounting Standards (IAS, the predecessor of IFRS). When IFRS 1 is introduced, Pakistan does not itself as the first-time user as 90% of its entities are already implementing the standards. Thus, there is no need to follow IFRS 1. Lastly, Pakistan ICAP and SECP are reviewing IFRS 17 (Insurance Contracts) and are actively communicate with the IFRS committee for future adoption.

Table 2-2 Entities in Pakistan that are required to use IFRS

Listed companies	**Public interest entities**	**Large unlisted companies**
Includes companies registered in foreign	Public sector companies	Has a paid capital of more than 200 million

[2] The study has found that the amount of small businesses applicable to AFRS for SSEs is minimal and their economic influence on the whole country is also greatly limited. Therefore, after careful considerations it's decided to classify Pakistan’s IFRS for SMEs as “Required”.

Listed companies	Public interest entities	Large unlisted companies
countries but listed in Pakistan		rupees or an annual turnover of more than 1 billion rupees
	Utilities sector Enterprises	
	Financial institutions	
	Companies in the process of being listed on the stock market	

2.Azerbaijan

In Azerbaijan, the Ministry of Finance has the legal right to set accounting standards, while the Chamber of Auditors of Azerbaijan Republic (CAAR) has to advise the Ministry of Finance on accounting regulations. There are several accounting standards in Azerbaijan, including IFRS, IFRS for SMEs, national accounting standards and simplified version of the national accounting standards. The *Republic of Azerbaijan Accounting Law* defines how to use those standards and how to regulate companies to use the right kind of standards. The Accounting Law prescribes that the following types of public interest entities must use IFRS:

- Insurance companies
- Investment Funds
- Non-state (private) social funds
- Credit institutions
- Security corporations listed on the stock exchange
- Commercial organizations which are confirmed by relevant parties to have exceeded two thresholds (in terms of annual income, the average number of employees in the fiscal year, and total balance sheet asset) on the day to prepare financial statements.

Apart from that, according to Article 10.2 of the *Republic of Azerbaijan Accounting Law*, all business organizations (public interest entities and very small enterprises excluded) which have one or more subsidiaries and are confirmed to have passed two thresholds (in terms of annual income, the average number of employees in the fiscal year, and total balance sheet asset) have to prepare combined financial statements in accordance with IFRS. If a company does not pass two thresholds according to Article 10.3, it will follow the national accounting standards to prepare statements.

Other types of businesses (except small businesses) may choose to adopt IFRS or IFRS for SMEs. If some businesses (except public interest entities and micro-enterprises) choose neither of the two, they have to adopt the national accounting standard designed by the Ministry of Finance based on IFRS. Companies defined as micro businesses can choose to use the IFRS for SMEs, Azerbaijan national accounting standards, or special simplified accounting regulations for very small businesses formulated by the Ministry of Finance. Table 2-4 shows the definition of micro businesses in Azerbaijan's legal system.

Azerbaijan revised its Accounting Law in May 2018, deciding that from 1 January 2019 onwards, the IFRS for SMEs will replace the Azerbaijan national accounting standards, and that small and medium enterprises can adopt either the IFRS for SMEs or the Full IFRS.

Table 2-3 Azerbaijan's definition of micro-enterprises

In industry and construction	**In agriculture**	**In the wholesale industry**	**In retail, trade, transportation, service industries and other forms of economic activity**
Less than 50 employees	Less than 25 employee s	Less than 15 employee s	Less than 10 employees
An annual turnover of AZN[3]500,000	An annual turnover of AZN250,000	An annual turnover of AZN1,000,000	An annual turnover of AZN250,000

3. Georgia

Before 2016, according to the 2012 edition of the Law of Georgia on Accounting and Financial Audit, Georgian accounting standards were developed by recognized professional associations such as the Georgian Federation of Professional Accountants and Auditors (GFPAA). In June 2016, the Georgian government passed the Law of Georgia on Accounting, Reporting and Auditing, to further the convergence of its accounting practice to the international standards (IFRS and ISA). In 2017, the Georgian Government further established a subordinated agency of Service for Accounting, Reporting and Auditing Supervision (SARAS) under the Ministry of Finance. SARAS is responsible for adopting IFRS Standards, receiving and publication of the financial and non-financial statements, and oversight of audit professions.

In Georgia, the *Law of Georgia on Entrepreneurs* and the *Law of Georgia on Accounting, Reporting and Auditing* have established the national accounting and reporting regulations respectively. The former provides basic financial reporting framework for all business entities in Georgia, while the latter sets out detailed accounting and auditing requirements and defines what kind of regulations for which companies.

The Georgian Ministry of Finance classifies companies or institutions in four categories according to the size of the Public Interest Entity (PIE):

The first category (corporate entities which meet at least two of the following three criteria by the end of its financial reporting period).

[3]AZN is Azerbaijani Manat. ANZ 1 = 0.5894 USD (approximately)

a) Value of total assets exceeds GEL[4] 50 million.
b) Revenue exceeds GEL 100 million.
c) Average number of employees during the financial reporting period exceeds 250.

The second category (corporate entities who do not represent the fourth and third categories of enterprises and meet at least two of the following three criteria at the end of the financial reporting period).

a) Value of total assets does not exceed GEL 50 million.
b) Revenue does not exceed GEL 100 million.
c) Average number of employees during the financial reporting period does not exceed 250.

The third category (corporate entities who do not represent the fourth category of enterprises and meet at least two of the following three criteria at the end of the financial reporting period).

a) Value of total assets does not exceed GEL 10 million.
b) Revenue does not exceed GEL 20 million.
c) Average number of employees during the financial reporting period does not exceed 50.

The fourth category (corporate entities who meet at least two of the following three criteria at the end of the financial reporting period).

a) Value of total assets does not exceed GEL 1 million.
b) Revenue does not exceed GEL 2 million.
c) Average number of employees during the financial reporting period does not exceed 10.

The Public interest entities:

a) Financial reporting entity whose securities are traded on the Georgian stock market under the *Law of Georgia on Securities Market*.
b) Commercial banks or qualified credit institutions that comply with the *Georgian National Bank's Organic Law of Georgia*.
c) Microfinance institutions conforming to the *Law of Georgia on Microfinance Organizations.*
d) Insurance companies that comply with the *Law of Georgia on Insurance*.
e) Founding legal persons of non-state pension plans in line with the *Law of Georgia on Non-State Pension Insurance and Welfare*.
f) Investment funds that comply with the *Law of Georgia on Investment Funds*.
g) Non-Bank Deposit Institutions-Credit Unions which are in line with the *Law of Georgia on Non-Bank Deposit Institutions- Credit Union*.
h) Companies defined by the Georgian government as public interest entities.

[4] GEL is the Georgian Lari. GEL 1 = 0.3753 USD (as of Dec 2019)

Apart from these categories, there is an additional category called non-entrepreneurial (non-profit) legal entity. At present, three sets of accounting rules are active in Georgia, namely IFRS, IFRS for SMEs, and its domestic accounting standards. According to the *Law of Georgia on Accounting, Reporting and Auditing*, entities/groups shall perform accounting and financial reporting in accordance with the following procedures:

- PIEs and enterprises of the first category need to perform accounting and financial reporting in accordance with the IFRS;
- Enterprises of the second and third category shall perform accounting and financial reporting in accordance with the IFRS for SMEs. In addition, they are entitled to apply the full IFRS.
- Enterprises of the fourth category and non-entrepreneurial (non-profit) legal entities shall perform accounting and financial reporting in accordance with Simplified Financial Reporting Standard for Georgian Category IV Entities set by the SARAS.

4.Kazakhstan

According to the IFAC and IFRS documents, both the *Law on Accounting and Financial Reporting* and the *Law on Audit Activities* authorized the Ministry of Finance of Kazakhstan to decide on accounting and auditing policies and adopt relevant regulatory act in accordance with the opinions of the members of the Consultative Board (from government agencies, state-owned enterprises, professional accounting and auditing organizations, businesses, and academia). The National Bank of Kazakhstan on the other hand, is endowed with the statutory responsibility for the financial accounting and reporting of financial institutions.

In Kazakhstan, the *Law on Accounting and Financial Reporting* describes which set of accounting regulations are applied to which kind of enterprises. Apart from this law, other regulatory agencies such as the National Bank of Kazakhstan are also entitled to publish additional accounting requirements and regulations not covered by IFRS, most of which are designed to regulate special financial institutions and Islamic financial institutions.

The National Bank of Kazakhstan stipulates that since 2003, some Kazakhstan banks and financial institutions have been required to adopt IFRS, and since 2004, all the banks must prepare financial statements in accordance with IFRS. Starting from 1 January 2005, all listed companies (except banks) in Kazakhstan must fully adopt IFRS standards. This was also written into Article 234 of the *Law on Accounting and Financial Reporting* in 2007. Article 234 states that financial statements should use and refer to IFRS and IFRS for SMEs translated in Kazakh and Russian.

Moreover, the Ministry of Finance of Kazakhstan, the National Bank of Kazakhstan, and the Kazakh Stock Exchange also regulate that the listed companies, financial institutions, and large listed companies are all required to use the IFRS Standards. This regulation covers all banks, insurance companies, large corporations (with over 250 employees or an annual turnover of over US$20 million), listed companies, and other non-banking financial institutions. It is worth noting that Article 4 in Chapter 2 of the *Law on Accounting and Financial Reporting* stipulates that financial institutions, special financial companies, and Islamic special financial companies shall follow not only the international standards in maintaining accounting and financial reporting, but also the relevant rules and regulations set by the National Bank of Kazakhstan on accounting and financial reporting.

In addition, Kazakhstan's accounting law states that SMEs are also required to use the international accounting standards. Medium-sized SMEs and state-owned enterprises must choose either IFRS or IFRS for SMEs. In addition to the above two options, small and micro-enterprises may choose Kazakhstan National Financial Reporting Standards (KNFRS) developed by the Ministry of Finance. The IFRS information shows that although KNFRS are self-developed standards of Kazakhstan, they are also constructed based on IFRS for SMEs. Finally, all companies registered in Kazakhstan that trade debt securities and capital securities on the Kazakh stock market must prepare consolidated statements in accordance with the IFRS. Non-domestically registered companies with securities transactions in Kazakhstan's open market may choose either the IFRS or the US GAAP in preparing their consolidate statements. In short, Kazakhstan has largely assimilated itself to the international accounting standards.

5.Turkmenistan

Turkmenistan is in the process of establishing its accounting system. According to Article 1 in Chapter 4 of the *Law of Turkmenistan on Accounting and Financial Reporting*, the Ministry of Finance and the Central Bank of Turkmenistan is responsible for reviewing and regulating the Turkmenistan's accounting standards and systems. The Ministry of Finance of Turkmenistan is entitled to make accounting and financial reporting regulations for all enterprises in Turkmenistan, except credit institutions whose accounting and financial reporting requirements are made by the Central Bank of Turkmenistan based on the International Accounting Standards and the *Law of Turkmenistan on Accounting and Financial Reporting*.

The current national accounting standards were revised by the Ministry of Finance with reference to IFRS. All enterprises, including branches and representative offices of foreign companies operating in Turkmenistan, must prepare their financial statements in accordance with Turkmenistan's national accounting standards. However, the companies operating under the *Petroleum Law of Turkmenistan* may partially follow the national accounting standards. Accounting as well as financial reporting of petroleum enterprises should be maintained by contractors and subcontractors under the *Petroleum Law*, the international practice used in petroleum operations and the applicable provisions of the relevant agreement. Furthermore, the currency used in bookkeeping should be in Turkmenistan Manat (TMT). Transactions in a foreign currency shall not be done until the value is converted to TMT at the legal exchange rate of the Central Bank of Turkmenistan at the time of transaction.

Currently, various regulations and government documents show that Turkmenistan is shifting from the national accounting system to IFRS. According to Article 10 in Chapter 2 of the *Law of Turkmenistan on Accounting and Financial Reporting*, Turkmenistan's accounting policies are established on the basis of their own standards and the international accounting standards. As for the financial reporting of

SMEs, Article 16.2 in Chapter 3 shows that the Ministry of Finance established a set of simplified and medium simplified financial statements according to the national standards and IFRS for SMEs. The cabinet council convened in December 2018 shows that Turkmenistan intends and is planning to start all preliminary procedures and processes, including drafting manuals, introducing software and organizing seminars to bring the local accounting and financial reporting system up to the IFRS standards. The President of Turkmenistan also signed a decree that, starting from January 2019, all businesses and organizations (except credit institutions), regardless of their form of ownership, are required to abide by IFRS. However, for the lack of information regarding the state of accounting systems in Turkmenistan, there is currently no definite news on whether the IFRS has been fully implemented.

6.Kyrgyzstan

In Kyrgyzstan, the policies of accounting, financial reporting, and auditors are set by the State service for regulation and supervision of the financial market under the government of the Kyrgyz Republic (or known as Gosfinnadzor). In 2001, Kyrgyzstan passed the Government Decree (No. 593) "On International financial reporting standards in the Kyrgyz Republic", signified the departure of the national accounting standards to IFRS. In 2002 the *Law of the Kyrgyz Republic on Accounting* was introduced, and it was further amended in February 2013. The amended version of the law introduces the financial reporting requirements based on entities' size and public importance. For instance, article 1.2 in Chapter 1 of the *Law of the Kyrgyz Republic on Accounting* indicates that all public interest entities, regardless of ownership, must follow IFRS in preparing accounting and financial statements. Public interest entities can include:

- Entities whose securities are issued and listed on the stock exchange
- Banks or other financial institutions licensed by the National Bank of the Kyrgyz Republic
- Investment Funds
- Insurance companies
- Private pension funds

In October 2013, the decree ""On International financial reporting standards for small and medium-sized businesses in the Kyrgyz Republic" came into effect, and rules for accounting and reporting of small businesses were also introduced in the same year. These two legal documents have further provided the basis of the accounting practices for SMEs and micro businesses in Kyrgyzstan. For example, all entities except public interest entities, regardless of their ownership, are required to use the IFRS for SMEs. Depending on their internal management mechanism, small and medium enterprises may choose either IFRS or IFRS for SMEs to prepare their financial statements. Self-employed businesses and micro-enterprises can adopt the simplified accounting rules set by the government of the Kyrgyz Republic or the IFRS for SMEs on a voluntary basis. Furthermore, in terms of the National Bank of the Kyrgyz Republic, according to Article 55 in Chapter 11 of the *Law on the National Bank of the Kyrgyz Republic, Banks and Banking Activity*, the National Bank is also required to follow IFRS in its accounting and reporting.

As Kyrgyzstan is also an Islamic country, many financial institutions follow the Islamic banking and financial principles rather than the western financial system. The Kyrgyz accounting law stipulates that financial institutions adopting the Islamic system must prepare their financial reports according to Kyrgyzstan Islamic Financial Accounting Standards.

7.Mongolia

In Mongolia, the accounting standards are developed and implemented by the Ministry of Finance. The Ministry of Finance, especially the Accounting Policy Department, is in charge of overseeing the entities in implementing the IFRS standards and the International Public Sector Accounting Standards (IPSAS). The department is also responsible for enacting, approving, guiding and interpreting other related documents. In addition, the Ministry of Finance is also responsible to organize seminars for accountants, to assist them in the implementation of the international accounting, auditing and evaluation standards. The non-governmental Mongolian Institute of Certified Public Accountants (MonICPA) is allowed to offer advice to the Ministry of Finance - the only official standard-setting body - on the adoption of IFRS, provide professional training to accountants, and facilitate the establishment and implementation of the auditing standards.

As part of the government reform, the Mongolian accounting system underwent a revision in 2015, and the revised accounting system took effect in January 2016. In the old accounting system, Mongolian companies (SMEs excluded) were required to use the IFRS, but the IFRS for SMEs was not included in the list for implementation. Starting from 2016, the new version of *Law of Mongolia on Accounting* offers more options to Mongolian companies, that is, apart from the enterprises subject to specific requirements, others can choose either IFRS or IFRS for SMEs at their discretion. However, it is worth noting that, though IFRS for SMEs is legalized in Mongolia, the application of the standards is still unclear as there is a lack of policies or guidelines to support users on the mode and applicability of standard implementation.

Furthermore, in the new accounting law, the following entities are required to use IFRS:

- Any company listed on a local or an international stock exchange
- Companies that have applied for listing on a local or an international stock exchange
- Entities holding licenses specified in Articles 15.2[5], 15.3[6], 15.4[7], 15.10.5[8], 15.10.6[9], and 15.10.13[10] of the *Law of Mongolia on Licensing*
- Entities owned or partially owned by the central or local government
- Public service providers of electricity, water or heating
- Political parties and non-governmental organizations that perform government functions on a contractual basis, as described in Article 19 of the *Law on Government of Mongolia*

[5] Banking industry
[6] Securities industry
[7] Finance and economic industry
[8] Mineral exploration industry
[9] Mining industry
[10] Oil production and wholesale industry

- Business entities operating in the commercial banking industry for special purposes or as an investment fund.

The new version of accounting law also defines the types of companies required to use IFRS for SMEs, as listed in Table 2-5.

The *Accounting Law* also specifies requirements for language and currency in the reporting. Since January 2016, all companies shall keep accounts in Mongolian rather than a foreign language (except those with permission from the Ministry of Finance), and the bookkeeping and reporting currency should be the Mongolian Tugrik. The new accounting law also states that for business entities with one or more subsidiaries, the parent company needs to prepare consolidated financial statements. In the case of an enterprise group, if a subsidiary also has its own subsidiaries, the ultimate parent company needs to prepare consolidated financial statements. If the ultimate parent is a company registered abroad, the holding company registered in Mongolia (maybe a subsidiary of the whole international group) is required to prepare an interim consolidated financial report according to the financial data of all its subsidiaries. This provision is to prevent the Mongolian intermediate holding company from taking advantage of the exemption clause (If the ultimate parent company has prepared the consolidated financial statement, its intermediate holding company does not need to prepare the consolidated financial statement) in IAS 27 to avoid constructing the consolidated statements with its subsidiaries. Also, the new *Company Law* stipulates that subsidiaries have to publish separate financial reports while parent companies should issue consolidated reports signed with their subsidiaries.

Similar to the old version, the new *Accounting Law* further strengthened the requirements for all Mongolian companies to use IFRS. However, some articles in the new *Company Law* and *Accounting Law* are not consistent with the IFRS provisions. For instance, in the requirement for consolidated statements, both new laws require subsidiaries to prepare consolidated statements, while IFRS10 only requires the holding company to prepare. Furthermore, there is also a division in the definition of subsidiary between the *Company Law of Mongolia* and IFRS 10. According to Article 6.4 of the *Company Law*, a company can be deemed a subsidiary if a holding company has over 50% of its equity directly or indirectly. Whereas IFRS 10 defines a controlled entity by a parent company's actual degree of control rather than the shareholding percentage (a company may hold less than 50% of the shares but it has absolute control in the board over the entity in question). In two cases, the difference in the definition may cause issues. The first is that the parent company exercises absolute control in the board of the controlled entity but holds less than 50% of its shares. It is a subsidiary according to IFRS 10 but is not according to the *Company Law of Mongolia*. The second situation is that over 50% of the entity's equity is in the parent company but the parent company does not have absolute control over it in the board. It is a subsidiary according to the *Company Law of Mongolia* but is not according to IFRS 10.

Moreover, the inconsistency of the definitions of controlled entity between Mongolian law and IFRS may also cause confusion when companies are preparing consolidated statements. For example, the *Company Law of Mongolia* requires that the parent company must prepare consolidated statements, and Article 4 of the *Accounting Law of Mongolia* demands that companies must follow IFRS in preparing financial reports, which means the consolidated statements have to be prepared according to the IFRS method to combine the interests of the controlled entity and non-controlled entity. This then may create the following issue. Compliance with IFRS means compliance with the subsidiary definition in IFRS 10. However, IFRS has different accounting treatments depends on the parent and subsidiary relationship and the proportion of shareholding percentages (50% or below). As for the Mongolian laws, neither the Mongolian *Accounting Law* or the *Company Law* makes it clear on how to deal with a non-subsidiary controlled entity or explain how to consolidate the financial statements of such subsidiaries. This puts the Mongolian companies in a dilemma between the two sets of standards. In that full compliance with IFRS will not satisfy the Mongolian law, while following the Mongolian law will make it impossible to prepare financial statements in accordance with IFRS. In order to solve the above issues, for the purpose of accounting, the group entities are to prepare the consolidated financial statements according to the accounting guideline in the Mongolian Law on Accounting. This guideline was approved by Minister of Finance order #170 on 2015 to enter into effect from the 1st of January 2016 and it is compliance with IFRS 10 Consolidated financial statements.

Although there are some inconsistencies between the Mongolian laws and the IFRS, Mongolia is still relatively well in the convergence of IFRS.

Table 2-4 Companies permitted to use IFRS for SMEs in Mongolian

Entities or citizens working under a contract or labor agreement	**Wholesalers**	**Retailers**	**Service providers**	**Service providers**
With 199 employees or less	With 149 employees or less	With 199 employees or less	With 49 employees or less	With a total of 19 employees or less
With an annual turnover of MNT[11]1.5 billion or less	With an annual turnover of MNT1.5 billion or less	With an annual turnover of MNT1.5 billion or less	With an annual turnover of MNT1 billion or less	With 9 or fewer manufacturing employees
				With an annual turnover of MNT250 million or less

[11]MNT is Mongolian Tugrik. MNT1 = 0.0004 USD (approx.)

8.Afghanistan

According to Afghan laws and IFRS data, Da Afghanistan Bank is responsible for establishing the use and specifications of accounting standards for banks and financial institutions but not for other types of entities. The *Corporations and Limited Liability Companies Law of Afghanistan* and *Law of Banking in Afghanistan* clearly show that Afghanistan is partially practicing IFRS. The *Corporations and Limited Liability Companies Law of Afghanistan* and Article 54 of *the Law of Banking in Afghanistan* stipulate that all companies (except micro-enterprises) must adopt IFRS. In practice, companies follow the IFRS fully are in sectors such as banking, financial institutions, telecommunication, technology, media, and power and development.

IFRS for SMEs is not yet adopted in Afghanistan; thus, micro-enterprises are still allowed to use cash-based accounting. However, as the Afghanistan Government is making effort on preparing the country to be ready for adoption of IFRS for SMEs, it is possible that in the next 4 – 7 years this will be the requirement for Afghan SMEs. Furthermore, the *Da Afghanistan Bank Law* stipulates that all domestic banks and financial institutions are required to use IFRS and that Da Afghanistan Bank itself also needs to abide by IFRS according to Articles 28 and 101. The World Bank issued a *Report on Observance of Standards and Codes (ROSC)* – Accounting & Auditing in 2009 and suggested that the government of Afghanistan consider applying IFRS for SMEs. There is not yet any stock exchange in Afghanistan, so there are no laws on listed company financial standards.

9.Uzbekistan

Uzbekistan's accounting system is in convergence with the Full IFRS, but the country has not yet adopted the IFRS for SMEs. The development of its accounting system is presented below.

The accounting standards of the Republic of Uzbekistan are currently being developed by two government organizations. The Ministry of Finance develops accounting standards for private companies and state-funded organizations, while the Central Bank of Uzbekistan (CBU) establishes accounting standards for banks and credit institutions.

The CBU has required all commercial banks to use IFRS since 1996; in 2004 it has established the Central Bank regulations in accordance with the 2004 version of the IAS/IFRS and begun to implement such regulations in 2005. At present, banks in Uzbekistan follow part of the IFRS and the central bank regulations which differ slightly from IFRS. Some Central Bank regulations that are different from IFRS are as follows:

- Valuation of bonds and stock investments
- Measurement of loan losses and impairment
- Confirmation and valuation of loan charges
- Deferred income tax
- Lease accounting
- Merger and Acquisition

Since the 2004, version of the standards formulated by the CBU are not upgraded to reflect the IFRS subsequent revisions, many provisions are outdated. Furthermore, the principle of prudent reporting set by CBU also fails to meet the requirements of IFRS.

Given the above, the President of Uzbekistan has signed a bill (Presidential Decree No. 1438) in 2010 to require all state-owned enterprises to adopt the International Auditing Standards (ISA) after 2015, and the IFRS is scheduled to be implemented in the near future. In 2015 the Uzbekistan's President further signed a Presidential Decree (No. 4720). This decree requires all joint-stock companies, in the period between 2015 to 2018, to gradually switch to IFRS and ISA when publishing annual financial statements and to conduct their external audit. Furthermore, in 2016 the *Law on Accounting of 1996* was amended, and Uzbek national accounting standards were formulated referring to 2008 Revised Version of IFRS. In addition, on September 19, 2018, the resolution "On Measures for the Further Development of Audit Activities in the Republic of Uzbekistan" (No. 3946) was signed. The resolution requires all audits to be conducted in accordance with ISA as translated into the Uzbek language and published on the website of the Ministry of Finance effective 2020. At present, except the banking industry, all the other business entities in Uzbekistan are not required to use IFRS but can follow the national accounting standards of Uzbekistan developed by the Ministry of Finance based on the 2008 version of IAS. However, some companies would choose to voluntarily disclose IFRS-based financial reports while satisfying the national standards.

At this stage, the Uzbek Government is making effort and working on the full convergence of international accounting practices. In 2019, the draft resolution "On Additional Measures for Transition to International Financial Reporting Standards" was published for discussion. The draft indicates that from 2021, all joint-stock companies, banks, insurance companies, business entities with a state share in the authorized capital, and legal entities classified as large taxpayers, are required to begin preparing financial statements on the basis of IFRS.

10. Tajikistan

There is very little information about the accounting standards of Tajikistan. According to the available information, the accounting standards of Tajikistan are compiled and regulated by the Ministry of Finance and the Central Bank of Tajikistan, and Tajikistan has begun implementing IFRS in stages. In Tajikistan, the accounting and auditing activities are regulated by the *Law of the Republic of Tajikistan on Accounting and Financial Reporting*, which covers all organizations, including non-resident legal entities (registered abroad). As Article 22.2 of this law indicates, all financial statements and notes are to be prepared according to IFRS or Tajikistan national standards and the *Law of the Republic of Tajikistan on Accounting and Financial Reporting*. In other words, legal entities are required to prepare the annual financial reports in accordance with the IRFS or Tajikistan national standards; however, listed companies or public interest entities are regulated to adopt IFRS and comply with the *Law of the Republic of Tajikistan on Accounting and Financial Reporting*. As for financial institutions (banks, financial institutions, and microfinance institutions), Article 22.4 of the *Law of the Republic of Tajikistan on Accounting and Financial Reporting* stipulates that the financial reporting methods of such institutions shall be supervised and formulated by the State Bank of Tajikistan.