TRANSITION PROCESS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) & ITS PARTICULARITIES
TRANSITION PROCESS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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The Superintendency of Companies establishes an IFRS adoption schedule for the companies under its control:

- Companies and subject entities regulated by the Securities Market Law, as well as all companies that carry out external audit activities.
- Obligatory nature of the holding companies or holders of shares, which have voluntarily formed business groups and mixed economic companies.
- Other small and medium-sized companies (SMEs) that comply with the conditions: Asset amount USD 4MM, Sales of up to USD 5MM and have less than 200 workers.

The Central Bank of Ecuador is the first financial institution in the country and the first public entity to carry out the process of adapting a new internationally recognized accounting regulatory framework.
2. ACCOUNTING FRAMEWORK USED BY THE CENTRAL BANKS OF THE REGION

The nature of central banks makes operations for the fulfillment of their functions atypical under the general scope of accounting.

Several countries in the region have adopted Full or partial IFRS into their accounting standards.

In Ecuador there is no obligation to apply international regulations in the Financial System, thus making the Central Bank of Ecuador a pioneer in adopting the IFRS.

FUENTE ESTADOS FINANCIEROS DE LATINOAMERICA

https://datosmacro.expansion.com/paises/grupos/fmi
3. OBJECTIVES ANALYSIS

TARGET TREE

- Promote the adoption of internationally accepted standards in the rest of the country’s institutions, generating confidence and competitiveness in the sector.

- Generate the level of information required in the international market for the offer of financial products.

GOAL

- Issue audited financial statements under internationally recognized accounting standards.

PURPOSE

- Implement a new internationally recognized accounting regulatory framework.

COMPONENTS

- Have a set of standards constantly updated, evaluated and adapted according to the evolution of the markets.
- Generate a specialized training program for the personnel involved in the financial information generation process.
- Facilitate benchmarking between organizations of a similar nature, in this case, central banks of any country that adopts them.
- Define an accounting and operating system that has application of updated methodologies, assessed and adapted to the global reality.
4. PROJECT OF CONVERGENCE TO IFRS IN THE BCE, LIFE CYCLE OF THE PROJECT

- **Start** (2018 CEMLA, PAT)
- **Design**
- **Approval**
- **Implementation**
- **Monitoring and Evaluation**
- **Closing**

Timeline:
- 2018 CEMLA, PAT
- 2019
- 2020, 2021
- 2021 - 2022
### 5. IFRS ADOPTION TIMELINE

<table>
<thead>
<tr>
<th>DETAIL</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base year:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project approval</td>
<td>IN PROGRESS</td>
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<tr>
<td><strong>Transition year:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact analysis on financial institutions as of December 31, 2019 with application of the new regulations</td>
<td>FINISHED</td>
<td>IN PROGRESS</td>
<td></td>
<td></td>
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<tr>
<td>Preparation of accounting policies</td>
<td>IN PROGRESS</td>
<td></td>
<td></td>
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<tr>
<td>Analysis of the different accounts that make up the Financial Statements</td>
<td>IN PROGRESS</td>
<td></td>
<td></td>
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<tr>
<td><strong>Year of definitive adaptation:</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Personnel training</td>
<td>IN PROGRESS</td>
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<tr>
<td>Hiring of the Consulting Company.</td>
<td>FINISHED</td>
<td></td>
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<tr>
<td>Validation of methodology and procedures applied under the new regulations</td>
<td>IN PROGRESS</td>
<td></td>
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</tr>
<tr>
<td>Evaluation of the methodology and procedures applied by the BCE under the new accounting regulatory framework</td>
<td>IN PROGRESS</td>
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</tr>
<tr>
<td>Preparation and presentation of the final document for approval by the governing body and authorities of the BCE.</td>
<td>IN PROGRESS</td>
<td></td>
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</tr>
<tr>
<td>Entry of entries and accounting adjustments to obtain EEFF 2019-2020 with a new approach.</td>
<td>IN PROGRESS</td>
<td></td>
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<tr>
<td>Modification of internal regulations according to approved policies.</td>
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<tr>
<td>Generation of financial statements with new accounting framework as official information.</td>
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<tr>
<td>Audited financial statements under the new accounting framework</td>
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</tr>
</tbody>
</table>
6. IMPACTS OF THE ADOPTION OF IFRS

- IAS 9 Employee benefits
- IFRS 16 Leases
- IFRS 9 Financial instruments
- IAS 16 Property, plant and equipment
- IAS 38 Intangible Assets

Standards with greatest impact
7. MAIN CHALLENGES

DOMESTIC INVESTMENT AND STATE BONDS

- IFRS 9, IFRS7 Y NIC 36
  - Market price valuation
  - Impairment methodology
  - Probability of incurring in non-payment of the obligation.

SHARES AND PARTICIPATIONS

- IFRS 10 Y IFRS 12
  - Controlling entity and its respective subsidiaries present financial statements under IFRS and also carry out the consolidation.
  - Adaptation process would take much longer and would require much more commitment.

REPUTATIONAL RISK

- Uncertainty about the fulfillment of the obligations that the State maintains with its bondholders.

NEGATIVE EQUITY

- Uncertainty about the fulfillment of the obligations that the State maintains with its bondholders.
## 8. LIMITATIONS

<table>
<thead>
<tr>
<th>Internal Difficulties</th>
<th>External factors</th>
<th>Transition stage due to change of government</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unforeseen</td>
<td>• Contracting Processes</td>
<td>• New authorities committed with carrying out activities related to the project.</td>
</tr>
<tr>
<td>• Coordination between work teams</td>
<td>• Budget constraints</td>
<td>• Board or Directory creation</td>
</tr>
<tr>
<td>• Staff turnover, etc.</td>
<td>• Health Emergency worldwide</td>
<td>• Modifications of the regulatory framework.</td>
</tr>
<tr>
<td></td>
<td>• Local regulations, etc.</td>
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</tbody>
</table>
9. CHALLENGES IN THE ADOPTION OF THE IFRS IN CENTRAL BANKING

Although the progress in the adoption of IFRS for Central Banks in the region is important, efforts have been made and there has been commitment to achieve this convergence in such a way as to achieve the application of homogeneous accounting standards in the region that contribute to the comparability of financial information between central banks.

Experience and knowledge transfer between countries in the region that have adopted international regulations and those that are in process of adopting.
¡El Gobierno de todos!