



JURISDICTIONAL PROFILE: **Pakistan**

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This Profile provides information about the application of IFRS® Accounting Standards (Standards) in Pakistan. The Standards are developed and issued in the public interest by the International Accounting Standards Board (IASB). The IASB is the standard-setting body of the IFRS Foundation (Foundation), an independent, private sector, not-for-profit organisation.

The Foundation has prepared this Profile based on information from various sources. The starting point was the answers provided by standard-setting and other bodies in response to surveys the Foundation conducted on the application of the Standards around the world. The Foundation drafted the profile and invited the respondents to the survey. The Foundation also invited others (including regulators and international audit firms) to review the drafts. Their comments are reflected in this Profile.

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RELEVANT JURISDICTIONAL AUTHORITY

| | |
|--------------------------|--|
| Organisation | The Institute of Chartered Accountants of Pakistan (ICAP). Securities and Exchange Commission of Pakistan (SECP). The State Bank of Pakistan (SBP). |
| Role of the organisation | The ICAP regulates the chartered accountancy profession in Pakistan. It is the body responsible for adopting and issuing auditing standards and for recommending accounting standards for notification, i.e. formal adoption by regulation by the SECP. The ICAP is the standard-setting body for Islamic Financial Accounting Standards. The SECP has authority to notify accounting standards for all companies, not just listed companies. |

The SBP being the banking regulator has a role in prescribing the accounting and reporting requirements for banks and certain categories of financial institutions.

| | |
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| Website | ICAP: www.icap.org.pk SECP: www.secp.gov.pk SBP: www.sbp.org.pk |
| Email contact | sohail.malik@icap.org.pk |

COMMITMENT TO GLOBAL FINANCIAL REPORTING STANDARDS

| | |
|---|--|
| Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards? | Yes. |
| Has the jurisdiction made a public commitment towards IFRS Accounting Standards as that single set of high quality global accounting standards? | Yes. |
| What is the jurisdiction's status of adoption? | <p>Pakistan has adopted all effective IFRS Standards except IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> and IFRS 14 <i>Regulatory Deferral Accounts</i>. Pakistan has adopted IFRS 9 <i>Financial Instruments</i> with an effective date of 1 July 2018 but has deferred for companies until 30 June 2019 (i.e. applicable for companies for period ending on or after 30 June 2019). Early application is permitted. Further, for companies holding financial assets where amounts are due from the Government of Pakistan IFRS 9 'Expected Credit Loss model' has been deferred until 30 June 2021. These companies shall follow the relevant requirements of IAS 39 during the exemption period.</p> <p>Further, following the grandfathering approach all companies that have executed power purchase agreements before 1 January 2019, shall have exemption as follows:</p> <ul style="list-style-type: none"> (a) IFRS 16 <i>Leases</i> to the extent of the power purchase agreements executed before the effective date of IFRS 16 i.e. 1 January 2019; (b) International Accounting Standard 21 <i>The Effects of Changes in Foreign Exchange Rates</i> to the extent of capitalization of exchange differences; and (c) In case of capitalisation of exchange differences under (b) above, recognition of embedded derivatives under IFRS 9 shall not be permitted. <p>Additionally, IFRS 9, IFRS 7 <i>Financial Instruments: Disclosures</i> and IAS 40 <i>Investment Property</i> are not yet implemented for banking companies due to the current regulations prescribed by the SBP addressing the accounting of financial instruments.</p> |
| Additional comments provided on the adoption status? | More information about the IFRS Standards that Pakistan has not adopted can be found in the IFRS Endorsement section of this Profile. |

If the jurisdiction has NOT made a public statement supporting the move towards a single set of accounting standards and/or towards IFRS Accounting Standards as that set of standards, explain the jurisdiction's general position towards the adoption of IFRS Accounting Standards in the jurisdiction.

Not applicable.

EXTENT OF IFRS APPLICATION

For DOMESTIC companies whose debt or equity securities trade in a public market in the jurisdiction:

Are all or some domestic companies whose securities trade in a public market either required or permitted to use IFRS Accounting Standards in their consolidated financial statements?

Domestic companies whose securities trade in a public market are required to prepare their statutory financial statements in accordance with the IFRS Standards as adopted in Pakistan. Further, all domestic companies, including companies whose securities trade in a public market, can opt to prepare their statutory financial statements in accordance with the IFRS Standards as issued by the Board.

As noted above, Pakistan has adopted all effective IFRS Standards, except IFRS 1 and IFRS 14. Application of IFRS 9 is deferred but early application is permitted. Additionally, IFRS 9, IFRS 7 and IAS 40 are not yet implemented for banking companies due to the current regulations prescribed by the SBP dealing with the accounting for financial instruments.

Therefore, companies preparing statutory financial statements in accordance with the IFRS Standards as adopted in Pakistan may not assert compliance with 'IFRS Standards' but they may assert compliance with 'IFRS Standards as adopted in Pakistan'. More information is available in the 'IFRS Endorsement' section of this Profile.

If YES, are IFRS Accounting Standards REQUIRED or PERMITTED?

Required.

Does that apply to ALL domestic companies whose securities trade in a public market, or only SOME? If some, which ones?

All.

Are IFRS Accounting Standards also required or permitted for more than the consolidated financial statements of companies whose securities trade in a public market?

Yes.

For instance, are IFRS Accounting Standards required or permitted in separate company financial statements of companies whose securities trade in a public market?

Yes.

For instance, are IFRS Accounting Standards required or permitted for companies whose securities do not trade in a public market?

Under the Companies Act 2017, the SECP has prescribed the following financial reporting frameworks for companies registered in Pakistan.

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| Classification criteria | Applicable framework |
|--|--|
| <p>Medium-sized company</p> <ul style="list-style-type: none"> a non-listed public company (paid-up capital of less than 200 million rupees; and annual turnover of less than 1 billion rupees; and fewer than 750 employees). A private company (paid-up capital exceeding 10 million rupees (approximately US \$71,000) but less than 200 million rupees; or annual turnover exceeding 100 million rupees (approximately US\$707,000) but less than 1 billion rupees; or more than 250 employees but fewer than 750). a foreign company with turnover of less than 1 billion rupees. medium-sized non-listed company licensed or formed under sections 42 or 45 of the Act having annual gross revenue (grants/income/subsidies/donations) including other income/revenue less than 200 million rupees (approximately US \$1.4 million) | <p>The <i>IFRS for SMEs</i> Standard is required.</p> <p>The <i>IFRS for SMEs</i> Standard is required and Accounting Standards for NPOs.</p> |
| <p>Small-sized entities (paid-up capital not exceeding 10 million rupees; turnover not exceeding 100 million rupees (approximately US\$720,000); and not more than 250 employees).</p> | <p>Accounting and Financial Reporting Standards for Small-sized Entities (AFRS for SSEs) as issued by the ICAP is required.</p> <p>These companies may choose instead to use either the <i>IFRS for SMEs</i> Standard or full IFRS Standards as adopted in Pakistan.</p> |

Further, companies can opt to prepare statutory financial statements under a higher financial reporting framework. For example, a medium-sized company can prepare statutory financial statements under the IFRS Standards as adopted in Pakistan.

Moreover, all companies can opt to prepare statutory financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board.

If the jurisdiction currently does NOT require or permit the use of IFRS Accounting Standards for domestic companies whose securities trade in a public market, are there any plans to permit or require IFRS Accounting Standards for such companies in the future?

Not applicable.

For FOREIGN companies whose debt or equity securities trade in a public market in the jurisdiction:

Are all or some foreign companies whose securities trade in a public market either REQUIRED or PERMITTED to use IFRS Accounting Standards in their consolidated financial statements?

Foreign companies whose securities trade in a public market are required to prepare their statutory financial statements in accordance with the IFRS Standards as adopted in Pakistan. Such companies can opt to prepare their statutory financial statements in accordance with the IFRS Standards as issued by the Board.

As noted above, Pakistan has adopted all effective IFRS Standards, except IFRS 1 and IFRS 14. Application of IFRS 9 is deferred until 30 June 2019, early application is permitted. Additionally, IFRS 9, IFRS 7 and IAS 40 are not yet implemented for banking companies due to the current regulations prescribed by the SBP dealing with the accounting of financial instruments.

If YES, are IFRS Accounting Standards REQUIRED or PERMITTED in such cases?

Required.

Does that apply to ALL foreign companies whose securities trade in a public market, or only SOME? If some, which ones?

All.

IFRS ENDORSEMENT

Which IFRS Accounting Standards are required or permitted for domestic companies?

Pakistan has adopted all effective IFRS Standards, except for IFRS 1 and IFRS 14. Pakistan has adopted IFRS 9 with an effective date of 1 July 2018 but has deferred it until 30 June 2019. Early application is permitted. Additionally, IFRS 9, IFRS 7 and IAS 40 are not yet implemented for banking companies due to the current regulations prescribed by the SBP dealing with the accounting of financial instruments.

Domestic companies can prepare statutory financial statements in accordance with either IFRS Standards issued by the Board or IFRS Standards as adopted in Pakistan.

More information can be found below.

The auditor's report and/or the basis of presentation footnote states that financial statements have been prepared in conformity with:

Based on the above explanation, IFRS Standards issued by the International Accounting Standards Board or IFRS Standards as adopted in Pakistan.

Does the auditor's report and/or the basis of preparation footnote allow for 'dual reporting' (conformity with both IFRS Accounting Standards and the jurisdiction's GAAP)?

Yes.

Are IFRS Accounting Standards incorporated into law or regulations?

Yes.

If yes, how does that process work?

IFRS Standards are adopted by the SECP by notification in the *Official Gazette*. When notified, the Standards have the authority of law.

If no, how do IFRS Accounting Standards become a requirement in the jurisdiction?

Not applicable.

Does the jurisdiction have a formal process for the 'endorsement' or 'adoption' of new or amended IFRS Accounting Standards (including Interpretations) in place?

Yes.

If yes, what is the process?

Adoption of an IFRS or IAS Standard involves the following steps:

- Initially, the IFRS Standard is considered by the Accounting Standards Board (ASB) of the ICAP, which identifies any issues that may arise on adoption.
- The ASB carries out its due process in terms of stakeholder awareness and consultation in relation to the new Standard.
- The ASB also identifies and requests the SECP and/or the State Bank of Pakistan (SBP) to make any necessary amendments to local legislation to ensure the effective implementation of the proposed IFRS Standard.
- The ASB recommends adoption of the IFRS Standard to the ICAP Council after the ASB has completed its due process, including the satisfactory resolution of any concerns or issues.
- By a decision of the Council, the ICAP recommends the adoption of the IFRS Standard to the SECP for notification. The decision to adopt rests with the SECP.
- When the SECP notifies the IFRS Standard it becomes, under the law, part of the IFRS Standards as adopted in Pakistan.

For details of the Due Process refer to the ASB Handbook:

<http://www.icap.net.pk/wp-content/uploads/2014/01/ASB-Due-Process-Rules-Final-post-comments-1.pdf>

If no, how do new or amended IFRS Accounting Standards become a requirement in the jurisdiction?

Not applicable.

Has the jurisdiction eliminated any accounting policy options permitted by IFRS Accounting Standards and/or made any modifications to any IFRS Accounting Standards?

Yes.

If yes, what are the changes?

- The implementation of IAS 39 was deferred for banks and financial institutions by SBP till further notice. The SBP has prescribed its own criteria for recognition and measurement of financial instruments for such financial entities. Further, IFRS 7 *Financial Instruments: Disclosures* has been deferred for banks and other financial institutions regulated by the SBP. The disclosure requirements are also set out by SBP in the format for financial statements prescribed for them.
- The SECP, through SRO 1007(I)/2017, dated 4 October 2017, adopted IFRS 9 *Financial Instruments* with an effective date of 1 July 2018. However, subsequently, the SECP deferred the effective date of IFRS 9 for the reporting period or year ending on or after 30 June 2019 for all companies required to prepare their financial statements in accordance with the requirements of IFRS Standards. The SECP has allowed early application of IFRS 9. Additionally, IFRS 9, IFRS 7 and IAS 40 are not yet implemented for banking companies due to the current regulations prescribed by the SBP addressing the accounting of financial instrument.
- IAS 40 *Investment Property* has been deferred for banks and other financial institutions regulated by the SBP. Investment properties are accounted for applying IAS 16. The disclosure requirements are also set out by SBP in the format for financial statements prescribed for them.
- Power-sector companies have been exempted by the SECP from the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* to the extent of capitalisation of a foreign exchange loss.
- All companies have been exempted by the SECP from the application of IFRIC 12 *Service Concession Arrangements*.
- Banks and other entities (e.g. investment management companies) have been exempted from consolidation requirements of IFRS 10 for their holdings in mutual funds.

Other comments regarding the use of IFRS Accounting Standards in the jurisdiction?

Pakistan recently adopted the following IFRS Standards:

- The implementation of IAS 39 was deferred for banks and financial institutions by SBP till further notice. Pakistan adopted IFRS 9 with an effective date of 1 July 2018 through SECP SRO 1007 (I)/2017, dated 4 October 2017 but has deferred it until 30 June 2019. Early application is permitted. Additionally, IFRS 9, IFRS 7 and IAS 40 are not yet implemented for banking companies due to the current regulations prescribed by the SBP dealing with the accounting of financial instruments.
- IFRS 15 *Revenue from Contracts with Customers* (SECP SRO 1007 (I)/2017, dated 4 October 2017).
- IFRS 16 *Leases* (SECP SRO 434 (I)/2018, dated 9 April 2018).

Further, IFRS 14 and IFRS 17 are expected to be adopted by Pakistan in 2019.

TRANSLATION OF IFRS ACCOUNTING STANDARDS

Are IFRS Accounting Standards translated into the local language? No.

If they are translated, what is the translation process? In particular, does this process ensure an ongoing translation of the latest updates to IFRS Accounting Standards? Not applicable.

APPLICATION OF THE IFRS FOR SMEs ACCOUNTING STANDARD

Has the jurisdiction adopted the *IFRS for SMEs* Accounting Standard for at least some SMEs? Yes. See below.

If no, is the adoption of the *IFRS for SMEs* Accounting Standard under consideration? Not applicable.

Did the jurisdiction make any modifications to the *IFRS for SMEs* Accounting Standard? No.

If the jurisdiction has made any modifications, what are those modifications? Not applicable.

Which SMEs use the *IFRS for SMEs* Accounting Standard in the jurisdiction, and are they required or permitted to do so? Under section 224 of, and the Third Schedule to, the Companies Act 2017, the SECP prescribed the IFRS for SMEs Standard for the following classes of Pakistani companies.

Further, companies can opt to prepare statutory financial statements under a higher financial reporting framework. For example, a medium-sized company can prepare statutory financial statements under the IFRS Standards as adopted in Pakistan.

| Classification criteria | Applicable framework |
|--|--|
| <p>Medium-sized company</p> <ul style="list-style-type: none"> a non-listed public company (paid-up capital of less than 200 million rupees; and annual turnover of less than 1 billion rupees; and fewer than 750 employees). a private company (paid-up capital exceeding 10 million rupees (approximately US \$71,000) but less than 200 million rupees; or annual turnover exceeding 100 million rupees (approximately US\$707,000) but less than 1 billion rupees; or more than 250 employees but fewer than 750). a foreign company with turnover of less than 1 billion rupees. medium-sized non-listed company licensed or formed under sections 42 or 45 of the Act having annual gross revenue (grants/income/subsidies/donations) including other income/revenue less than 200 million rupees (approximately US \$1.4 million) | <p>The <i>IFRS for SMEs</i> Standard is required.</p> <p>The <i>IFRS for SMEs</i> Standard is required and Accounting Standards for NPOs.</p> |
| <p>Small-sized entities (paid-up capital not exceeding 10 million rupees; turnover not exceeding 100 million rupees (approximately US\$720,000); and not more than 250 employees).</p> | <p>Accounting and Financial Reporting Standards for Small-sized Entities (AFRS for SSEs) as issued by the ICAP is required.</p> <p>These companies may choose instead to use either the <i>IFRS for SMEs</i> Standard or full IFRS Standards as adopted in Pakistan.</p> |

Further, companies can opt to prepare statutory financial statements under a higher financial reporting framework. For example, a medium-sized company can prepare statutory financial statements under the IFRS Standards as adopted in Pakistan.

For those SMEs that are not required to use the *IFRS for SMEs* Accounting Standard, what other accounting framework do they use?

See above.

Other comments regarding use of the *IFRS for SMEs* Accounting Standard?

None.