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Challenges that Lay Ahead of the IASB

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I. Likelihood of US and Chinese Adoption of IFRSs

A. United States: SEC's chief accountant says that there is no support for mandatory adoption and little support for voluntary adoption by domestic issuers

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Arguments against

- IFRSs are not sufficiently detailed and comprehensive
- IFRSs do not include industry standards
- IFRSs would be too costly for small listed companies
- Voluntary adoption would lead to non-comparability in US markets
- IFRSs would not necessarily be responsive to the needs of US constituents
- SEC and Congress would lose direct oversight over standard setting

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A widely held view that US accounting standards should be set in the USA, not in London

1. SEC chief accountant has said that he will recommend allowing domestic issuers to adopt IFRS in ‘supplementary’ financial statements
2. Yet some 500 foreign issuers listed or traded in New York already use IFRS

3. **Conceivably, with time, the opening of Shanghai and Shenzhen stock exchanges to international listings may gradually soften the Ministry of Finance's resistance to go further with IFRSs**

4. Japan's Financial Services Agency allows voluntary adoption of IFRS – so far, 164 companies (33% of TSE market cap) have adopted

II. Relations between the IASB organization and the FASB

A. Now that the leasing and insurance standards have been issued, formal IASB-FASB convergence has ended, which is welcomed in Europe

B. Divergence may occur – the FASB has already issued some mostly minor amendments to IFRS 15 on revenue recognition

1. In January 2016, FASB deleted ‘available for sale’ treatment for equity securities – at odds with IFRS 9’s ‘irrevocable election’

C. IASB is moving to complete the conceptual framework on its own, restoring stewardship and prudence

D. Yet the SEC chief accountant urges the IASB and FASB to continue attempts at converging their standards, and informal consultations between the two boards continue

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E. Will there be an attempt to exclude US representatives from the IASB Board, from the IFRS Foundation trustees, and from the Monitoring Board?

F. Although the FASB is a member of the IFRS Foundation's Accounting Standards Advisory Forum (ASAF), the FASB is engaging in international outreach on its own

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1. **Beginning in November 2014, the FASB has been holding private meetings with its ‘multilateral network’ of standard setters – apparently the UK, Germany, Canada, Japan**
2. **The FASB invited the IASB to attend, but it declined**
3. **The aim of the meetings is to share experiences in order to promote worldwide comparability of accounting standards**

III. The IASB faces some fundamental conceptual dilemmas

- Whether its standards should continue to be principles-based, or become more rules-based
- Whether its standards should reflect a balance-sheet or income-statement focus
- How to weigh relevance against reliability
- Whether to use more fair value in its standards

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IV. How should the IASB manage the feedback it receives from so many diverse constituent bodies on its agenda and drafts?

The organized feedback groups are as follows:

- ASAF – Accounting Standards Advisory Forum
- EFRAG – European Financial Reporting Advisory Group
- IFRS Advisory Council
- World Standard-Setters

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- Capital Markets Advisory Committee
- International Forum of Accounting Standard-Setters
- Global Preparers Forum
- AOSSG – Asian-Oceanian Standard-Setters Group
- Emerging Economies Group
- GLASS – Group of Latin American Accounting Standard Setters
- Pan African Federation of Accountants
- Islamic Finance Consultative Group

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The aim of constituent bodies is to convey their views to the IASB as early in the standards development process as possible

Some jurisdictions have persuaded the IASB to deal with unique national accounting issues:

- China’s claim for ‘deemed cost’ treatment for assets taken over by new state-owned enterprises (2010 amendment)

- **Malaysia's claim that IAS 41 should provide separately for 'bearer' plants (2014 amendment)**

- **Canada's claim to accommodate the special case of rate-regulated public utilities (IFRS 14, an interim standard)**

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V. Achieving global comparability in financial reporting and a single set of high quality IFRSs

A. Because of different business customs, accounting and auditing cultures, regulatory cultures, and income tax laws, there will inevitably be differences in the interpretation and application of IFRSs across countries

1. Yet the existence of IFRSs is unquestionably superior – in terms of achieving global comparability – to having each jurisdiction use its own domestic standards

B. In its conceptual framework (2010), the IASB says that ‘Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different.’ (QC23)

C. Especially in difficult economic times, there is a likely conflict between securities market regulators and prudential regulators over accounting for financial assets and liabilities

D. The challenge is to keep the range of jurisdictional differences to within an acceptably narrow compass

E. Detailed rule-making is more easily done nationally, promoting strict prescription within a homogeneous environment – principles-based standards are more attuned to an international setting

F. The big international audit firms play an important role in harmonizing interpretation and application across jurisdictions

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VI. What are the implications for the IASB of the EU's Maystadt Report of 2013, 'Should IFRS Standards be More "European"?'

A. EFRAG is now expected to assess whether newly issued IFRSs are 'conducive to the European public good'

1. This evidently means the impact on preparers, economic growth, and financial stability

B. Early signs are that EFRAG is still very much concerned with transparency and information to investors
C. Jean-Paul Gauzès, the new French president of EFRAG, may, however, chart a new course

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VII. What steps is the IFRS Foundation taking to strengthen compliance with IFRSs by jurisdictional regulators?

A. From 2001-11, the Foundation trustees were uninvolved with compliance matters

B. IOSCO (International Organization of Securities Commissions) in 2008 issued a statement encouraging better compliance, and ESMA (European Securities and Market Authority) has been coordinating the compliance steps being taken by the IFRS enforcers in the EU

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1. ESMA has been making its own assessment of the adequacy of company compliance with IFRS
2. IOSCO and ESMA can do no more than cajole regulators into becoming more proactive

C. The quality of compliance enforcement varies significantly across jurisdictions, even within the EU

1. Important issues are the scope of the regulator's authority, the adequacy of its budget, and the quality and training of its staff

D. In recent years, the IFRS Foundation trustees have been trying to engage with regulators – it has signed protocols with IOSCO and ESMA, to what effect is not yet clear

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VIII. What steps is the IFRS Foundation taking to persuade jurisdictions to require companies and auditors to affirm compliance with 'IFRSs as issued by the IASB'?

A. In the EU, companies and auditors are required to affirm compliance with 'IFRSs as adopted by the EU'
B. In Hong Kong, they are required to affirm compliance with 'Hong Kong Financial Reporting Standards'

C. South Korean companies and their auditors must affirm compliance with ‘Korean International Financial Reporting Standards (“K-IFRS”)’
D. Will readers in other jurisdictions know how, if at all, these differ from IFRSs as issued by the IASB?
E. In 2008, IOSCO urged companies to divulge whether, and to what extent, their financial statements comply with ‘IFRSs as issued by the IASB’

F. SEC insists on an affirmation of compliance with 'IFRSs as issued by the IASB' for a foreign issuer to avoid having to make a reconciliation with US GAAP

G. Between 2005 and 2007, Australian and New Zealand companies and auditors affirmed compliance with national standards only, but now must give a second opinion on compliance with IFRSs

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IX. Funding of the IFRS Foundation – what has been achieved, and what must be done?

A. Trustees have arranged stable funding packages in many countries and by the EU

B. In 2017, the total contributions, £25.1m, were derived from the following major spheres:

35% Europe

35% International audit firms (£8,707,000)

25% Asia-Oceania

C. The largest jurisdictional sources in 2017 were:

£3,806,000	European Union
£2,277,000	Japan (via FASF)
£1,904,000	China
£883,000	France (via Ministry of Finance)
£879,000	United Kingdom (levies by FRC)
£834,000	Germany (66 firms via DRSC)
£695,000	United States
£677,000	Italy (via OIC)
£594,000	Australia (via FRC)

D. 14 of the 26 AOSSG jurisdictions contributed *nothing* in 2017, including Brunei, Dubai, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, and Vietnam

E. The only Latin American country that contributed in 2016 was Brazil (£229,000)

F. The only contributing African country was South Africa (£135,000)

G. Among the 19 *non*-contributing EU countries were Sweden, Denmark, Finland, Austria, Poland, and Czech Republic – the EU itself gave £4.1m

H. In 2017, Spain (Bolsas y Mercados Españoles) donated £345,000

I. Only some 23 of the 126 jurisdictions that require IFRS for all or most listed companies contributed to the IFRS Foundation in 2017

    A. The two largest country contributors – Japan and China – do not require the use of full IFRSs

J. IFRS Foundation must work with non-paying jurisdictions and jurisdictions that do not meet their GDP targets