

Section I

INTRODUCTION TO IFRS AND IASB FRAMEWORK

Chapter 1: Introduction to International Financial Reporting Standards

Chapter 2: IASB Framework for the Preparation and Presentation of Financial Statements

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Chapter 1

INTRODUCTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. ONE GLOBALIZED WORLD, ONE SET OF ACCOUNTING STANDARDS: READY OR NOT

A compelling need for a common set of accounting and financial reporting standards

1.1 There is now a real need for a common set of high-quality global accounting and financial reporting standards that are understood, used, and interpreted by different people around the world in the same manner. Historically, countries worldwide have had their own national accounting standards, which some countries may have treasured due to the pride of national sovereignty. However, the desire to become global players and be part of the globalization movement has led businesses across national boundaries to realize that it is an astute business strategy to embrace the world as their workplace and marketplace. In this global market, using different rules (standards) of accounting for the purposes of recognition, measurement, and reporting of financial results would not help countries to achieve their goal of internationalization; rather, it would serve as a severe impediment to smooth flows of information across borders. Therefore, some believe and swear by the concept of “one globalized world, one set of accounting and financial reporting standards.”

1.2 Today that slogan is not just wishful thinking but a necessity. This is evidenced by calls made by important political and economic groups, such as the G20 (the group of 20 major economies of the world’s finance ministers and governors of central banks), which released a communiqué and supporting documents after the G20 Leaders’ Summit in Cannes, France, in November 2011. Many of the agreed outcomes of this summit focused on global economic and other issues, but they also incorporated actions to implement and deepen financial sector reforms. These included references to global accounting standards and convergence of standards. The Cannes Summit Final Declaration includes these observations in relation to accounting standards:

We reaffirm our objective to achieve a single set of high quality global accounting standards and meet the objectives set at the London summit in April 2009, notably as regards the improvement of standards for the valuation of financial instruments. We call on the IASB [International Accounting Standards Board] and the FASB [Financial Accounting Standards Board] to complete their convergence project and look forward to a progress report at the Finance Ministers and Central Bank governors meeting in April 2012. We look forward to the completion of proposals to reform the IASB governance framework.

1.3 Investors, creditors, financial analysts, and other users of financial statements would welcome the adoption of a truly global set of accounting standards that present high-quality, transparent, and comparable information. Without a common set of standards, it is difficult to compare financial information prepared by entities located in different parts of the world (unless the financial information also includes reconciliations under different standards, which is a very expensive proposition for international conglomerates that operate in several countries and jurisdictions).

1.4 Therefore, in an increasingly global economy, it is imperative to use a single set of high-quality accounting standards, which facilitates investment and other economic decisions across borders, increases market efficiency, and reduces the cost of raising capital. International Financial Reporting Standards (IFRS) are becoming the globally accepted accounting standards that meet the needs of the world's increasingly integrated global capital markets.

2. WHAT ARE INTERNATIONAL FINANCIAL REPORTING STANDARDS?

2.1 The IFRS make up a set of standards promulgated by the International Accounting Standards Board (IASB), an international standard-setting body based in London, the United Kingdom. IASB places emphasis on developing standards based on sound, clearly stated principles, from which interpretations are necessary (sometimes referred to as principles-based standards). This contrasts with sets of standards, such as U.S. generally accepted accounting principles (GAAP), the national accounting standards of the United States, which contain significantly more application guidance. These standards are sometimes referred to as rules-based standards, but that is really a misnomer as U.S. standards also are based on principles—they just contain more application guidance (or rules). IFRS also generally do not provide bright lines distinguishing between circumstances in which different accounting requirements are needed. This reduces the chances of structuring transactions to achieve particular accounting effects.

2.2 According to one school of thought, since IFRS are primarily principles-based standards, the IFRS approach to standard setting focuses more on the business or the economic purpose of a transaction and the underlying rights and obligations. Therefore, instead of providing prescriptive rules (or guidance), IFRS promulgates standards that lay down guidance in the form of principles.

3. FIRST STEPS TOWARD INTERNATIONAL ACCOUNTING AND GLOBAL STANDARD SETTING

3.1 The International Accounting Standards Committee (IASC), the predecessor of IASB, was established in 1973 and came into being through an agreement among professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. The objective behind setting up the IASC was to develop, in the public interest, accounting standards that would be acceptable around the world in order to improve financial reporting internationally.

3.2 Over the years, the IASC saw several changes to its structure and functioning. For example, by the year 2000, IASC's sponsorship grew from the original nine sponsors to 152 accounting bodies from 112 countries (i.e., all professional accountancy bodies that were members of the International Federation of Accountants [IFAC]). Such fundamental changes to the IASC may have helped it achieve its original objective by changing the perception of global standard setters about the international nature of participation in the standard-setting process of the IASC by 152 accountancy bodies and other organizations, such as IASFEI and analysts from 112 countries.

3.3 As part of their membership in IASC, professional accountancy bodies worldwide committed themselves to use their best efforts to persuade governments, standard-setting bodies, securities regulators, and the business community that published financial statements to comply with IAS. This initiative also drew the world's attention to the fact that there exists a truly representative international accounting body that could ultimately qualify as a global standard setter and develop a single set of accounting standards that would be acceptable to most, if not all, countries worldwide.

3.4 Over the years, the IASC worked hard to achieve the objective of developing accounting standards for the world. However, due to several factors (the most important one, according to one school of thought, was availability of well-developed national accounting standards in certain jurisdictions that were also recognized by other leading jurisdictions) the standards promulgated by the IASC were not accepted by some leading jurisdictions. Some believe that the IASC lacked the resources and the independence needed to be accepted as the global standard setter. These were the critical issues that were to be overcome by forming the IASB separately from the accounting bodies that were the members of IASC and IFAC.

4. STANDARDS PROMULGATED BY THE IASC INTERPRETATIONS COMMITTEE THAT ARE STILL IN FORCE

4.1 During its existence, the IASC issued 41 numbered Standards, known as International Accounting Standards (IAS), as well as a *Framework for the Preparation and Presentation of Financial Statements*. Some of the Standards issued by the IASC have since been withdrawn and replaced or superseded by IASB Standards. (For example, IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, was withdrawn and replaced by IFRS 7, *Financial Instruments: Disclosures*, and IAS 22, *Business Combinations*, was superseded by IFRS 3, *Business Combinations*). Many Standards issued by the IASC are still in force, although some have been amended by the IASC and IASB and now carry new titles. (For example, IAS 8, which was initially captioned *Unusual and Prior Period Items and Change in Accounting Policies*, was amended and retitled *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*; it was amended and titled *Accounting Policies, Changes in Accounting Estimates and Errors*). In addition, some of the Interpretations issued by the IASC's interpretive body, the so-called Standing Interpretations Committee (SIC), are still in force.

IAS Still in Force for 2011 Financial Statements

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 11, *Construction Contracts*
IAS 12, *Income Taxes*
IAS 16, *Property, Plant, and Equipment*
IAS 17, *Leases*
IAS 18, *Revenue*
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, *Consolidated and Separate Financial Statements* (see note A)
IAS 28, *Investments in Associates*
IAS 29, *Financial Reporting in Hyperinflationary Economies*
IAS 31, *Interests in Joint Ventures* (see note A)
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* (see note B)
IAS 40, *Investment Property*
IAS 41, *Agriculture*

Notes

- A. In May 2011, the IASB issued a package of five Standards with an effective date of January 1, 2013. IFRS 10 will replace SIC 12 and revise the current IAS 27, *Consolidated and Separate Financial Statements* (which will be revised and captioned IAS 27, *Separate Financial Statements*). IFRS 11 will replace IAS 31.
- B. The IASB has issued IFRS 9, which will replace IAS 39.

SIC Interpretations Still in Force for 2011 Financial Statements

SIC 7, *Introduction of the Euro*

SIC 10, *Government Assistance—No Specific Relation to Operating Activities*

SIC 12, *Consolidation—Special-Purpose Entities* (see note)

SIC 13, *Jointly Controlled Entities—Nonmonetary Contributions by Venturers*

SIC 15, *Operating Leases—Incentives*

SIC 21, *Income Taxes—Recovery of Revalued Non-depreciable Assets*

SIC 25, *Income Taxes—Changes in the Tax Status of an Entity or Its Shareholders*

SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

SIC 29, *Disclosure—Service Concession Arrangements*

SIC 31, *Revenue—Barter Transactions Involving Advertising Services*

SIC 32, *Intangible Assets—Web Site Costs*

Note

In May 2011, the IASB issued a package of five Standards with an effective date of January 1, 2013. One of the new Standards, IFRS 10, will subsume SIC 12 and replace the existing IAS 27.

5. EMERGENCE OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

5.1 With tremendous pressure on the IASC to transform itself into a truly global standard-setting body by addressing some of the serious concerns of established standard setters around the world (whose grievances were frequently quoted in the international media as serious shortcomings of the IASC), in 2001, fundamental changes were made to strengthen the independence, legitimacy, and quality of the international accounting standard-setting process. In particular, the IASC Board was replaced by the International Accounting Standards Board (IASB) as the body in control of setting international accounting and financial reporting standards. This significant structural change to the manner in which the IASC functioned was brought about as a result of the recommendations of the Strategy Working Party, which was formed to take a fresh look at the IASC's structure and strategy. One dramatic change in the structure and functioning of the Board was the replacement of part-time volunteer Board members (nominated by member accounting bodies) with, for the most part, full-time IASB Board members appointed by independent trustees (see below).

5.2 Based on the recommendations of the Strategy Working Party, a new constitution was adopted effective July 1, 2000. Under these new rules of governance, the International Accounting Standards Committee Foundation (IASC Foundation) was born.

5.3 At its first meeting in 2001, the IASB adopted all outstanding IAS and SIC issued by the IASC as its own Standards. Those IAS and SIC continue to be in force unless they were amended or withdrawn by the IASB. New Standards issued by the IASB are known as IFRS. New interpretations issued by the IFRS Interpretations Committee are known as IFRIC Interpretations. When referring collectively to IFRS, that term includes statements that are headed or captioned IAS, SIC, IFRS, and IFRIC Interpretations.

6. GOVERNANCE AND STRUCTURE OF THE IASC FOUNDATION, MONITORING BOARD, IFRS ADVISORY COUNCIL, IASB, AND THE IFRS INTERPRETATIONS COMMITTEE

6.1 IASC Foundation and the Trustees

6.1.1 The governance of IASC Foundation rests on the shoulders of the Trustees of the foundation (IASC Foundation Trustees or, simply, Trustees). The Trustees comprise 22 individuals cho-

sen from around the world. In order to ensure a broad international representation, six Trustees are appointed from North America, six from Europe, six from the Asia/Oceanic region, and four from any part of the world, subject to establishing overall geographical balance.

6.1.2 The Trustees are independent of the standard-setting activities (which is the primary responsibility of IASB Board members). The Trustees are responsible for broad strategic issues.

6.2 Monitoring Board

6.2.1 The Monitoring Board, a new body, was created in 2009 to enhance public accountability of the IASC Foundation while maintaining the operational independence of the Foundation and the IASB.

6.2.2 The Monitoring Board is comprised of capital market authorities (representatives of institutions such as the International Organization of Securities Commissions [IOSCO], the US Securities and Exchange Commission [SEC], and the European Commission). Monitoring Board responsibilities include participating in the appointment of the Trustees of the IASC Foundation, advising the Trustees in the fulfillment of their responsibilities, and holding meetings with the Trustees to discuss matters referred by the Monitoring Board to the IASC Foundation or the IASB.

6.3 IFRS Advisory Council

6.3.1 The Trustees appoint the members of the IFRS Advisory Council (which until March 2010 was called the Standards Advisory Council [SAC]). The primary responsibility of the IFRS Advisory Council is advising the IASB on agenda decisions and priorities in the IASB's work. The IFRS Advisory Council provides a forum for organizations and individuals with diverse geographical and professional backgrounds who are interested in international financial reporting.

6.3.2 The IFRS Advisory Council comprises 40 members approximately. Members are appointed for a three-year renewable term. Currently the membership of the IFRS Advisory Council includes chief financial and accounting officers from some of the world's largest corporations and international organizations, leading financial analysts and academics, regulators, accounting standard setters, and partners from leading accounting firms.

6.4 International Accounting Standards Board (IASB)

6.4.1 The IASB is responsible for standard-setting activities, including the development and adoption of IFRS. The Board usually meets once a month and its meetings are open to the public—in person and via the Internet.

6.4.2 The IASB comprises 14 members appointed by the Trustees: 12 full-time members and 2 part-time members. (*The IASC Foundation Trustees were considering whether to expand the number of Board members from 14 to 16. With recent amendments to the constitution of the IASC Foundation, the size of the IASB is to be increased from 14 to 16 members by 2012.*)

6.4.3 The Board members, who are appointed for a term up to five years, renewable once, are chosen from a variety of backgrounds, including auditors, preparers of financial statements, users of financial statements, and academics. IASB members are usually individuals who possess professional competence, high levels of technical skills, and diverse international business and market experience; possessing such personal attributes would normally ensure that the Board members are able to contribute to the development of high-quality, global accounting standards.

6.4.4 The IASB has the complete responsibility for all IASB technical matters including preparation and issuing of IFRS and Exposure Drafts that precede issuance of the final standards (i.e., the IFRS).

IFRS Issued by the IASB up to December 31, 2011

IFRS 1, *First-time Adoption of International Financial Reporting Standards*

IFRS 2, *Share-Based Payment*

IFRS 3, *Business Combinations*

- IFRS 4, *Insurance Contracts*
 IFRS 5, *Noncurrent 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* (effective January 1, 2013, with early adoption permitted) (see note A)
 IFRS 10, *Consolidated Financial Statements* (effective January 1, 2013, with early adoption permitted) (see note B).
 IFRS 11, *Joint Arrangements* (effective January 1, 2013, with early adoption permitted) (see note B)
 IFRS 12, *Disclosures* (effective January 1, 2013, with early adoption permitted)
 IFRS 13, *Fair Value Measurement* (effective January 1, 2013, with early adoption permitted)

Notes

- A. IFRS 9 is the phased replacement of the existing Standard on Financial Instruments (IAS 39). The first installment was issued in November 2009. Although the original effective date of this Standard was January 1, 2013, the IASB has issued an Exposure Draft to extend the effective date further. Also, the IASB has issued Exposure Drafts for the other installments of IFRS 9.
- B. IFRS 10 has been issued as a replacement of SIC 12 and will revise IAS 27. IFRS 11 has been issued as a replacement of IAS 31.

IFRS for SMEs

In July 2009, the IASB promulgated the IFRS for Small and Medium Enterprises (SMEs). It provides Standards applicable to private entities (which are not publicly accountable as defined in this Standard). (IFRS for SMEs are not part of the IFRS but are available for use by jurisdictions seeking to set standards for SMEs.)

6.5 IFRS Interpretations Committee

6.5.1 The Trustees appoint the members of the IFRS Interpretations Committee (IFRIC; until March 2010, it was called the International Financial Reporting Interpretation Committee). The IFRIC is the IASB's interpretive body and is in charge of developing interpretive guidance on accounting issues that are not specifically dealt with in IFRS or that are likely to receive divergent or unacceptable interpretations in the absence of authoritative guidance. The Trustees select members of the IFRIC based on personal attributes, such as technical expertise, international business and market experience in the practical application of IFRS, and analysis of financial statements prepared in accordance with IFRS.

6.5.2 The IFRS Interpretations Committee is comprised of 14 voting members. The Trustees, if they deem fit, may also appoint nonvoting observers representing regulatory bodies, who shall have the right to attend and speak at the meetings of this body.

6.5.3 The IFRS Interpretations Committee shall meet as and when required. Ten voting members present in person or by telecommunication shall constitute a quorum.

6.5.4 Meetings of the IFRS Interpretations Committee (and the IASB) are open to the public, but certain discussions may be held in private at the discretion of the Committee.

IFRIC Interpretations issued up to December 31, 2011

- IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
 IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*
 IFRIC 3, *Emission Rights* (withdrawn)
 IFRIC 4, *Determining Whether an Arrangement Contains a Lease*
 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 8, *Scope of IFRS 2* (withdrawn)
- IFRIC 9, *Reassessment of Embedded Derivatives*
- IFRIC 10, *Interim Financial Reporting and Impairment*
- IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (withdrawn)
- IFRIC 12, *Service Concession Arrangements*
- IFRIC 13, *Customer Loyalty Programs*
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*
- IFRIC 15, *Agreements for the Construction of Real Estate*
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17, *Distribution of Noncash Assets to Owners*
- IFRIC 18, *Transfer of Assets from Customers*
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (issued on October 19, 2011, and effective for annual periods beginning on or after January 1, 2013, with early application permitted)

7. GLOBAL OUTREACH AND ACCEPTANCE OF IFRS ACROSS BORDERS

7.1 In the last few years, the popularity of IFRS has grown tremendously. The international accounting standard-setting process has claimed a number of successes in achieving greater recognition and use of IFRS.

7.2 A major breakthrough came in 2002 when the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005 and applies to more than 8,000 companies in 30 countries, including France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS has replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies there. This adoption is considered by many as a major milestone in the history of international accounting.

7.3 Outside Europe, many other countries also have been moving to IFRS. By 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America. In addition, Hong Kong, New Zealand, the Philippines, and Singapore have adopted national accounting standards that mirror IFRS. Australia adopted IFRS and also based its public sector reporting on IFRS.

7.4 Today, IFRS is used in over 100 countries. A significant number of global Fortune 500 companies already use IFRS. This number is expected to increase by 2013 with further conversions to IFRS by major global players (most notably Brazil, Canada, and India) and substantial convergence of local GAAPs in China and Japan to IFRS.

8. FAVORABLE AND HISTORIC BREAKTHROUGHS IN THE UNITED STATES

8.1 In the United States, efforts have been under way since 2002 to converge IFRS and US GAAP; the earliest initiative was a well-known agreement entered into between the IASB and the US standard setter (the FASB), referred to as the Norwalk Agreement. Under the convergence project undertaken by FASB and IASB (through a memorandum of understanding), the two standard-setting boards agreed to merge their separate sets of Standards into a single, high-quality set. Under this agreement, the boards are taking the best approach from either US GAAP or IFRS or jointly developing entirely new Standards where the current Standards of neither body are deemed to be of sufficient quality. Several newly issued or revised Standards (most notably IFRS 3 and IFRS 8) are a result of such joint efforts of the boards of both standard setters.

8.2 In November 2007, the US Securities and Exchange Commission made a historic gesture by opening its doors for foreign registrants to use IFRS. In fact, this is the first time in the history of US standard setting that a non-US set of accounting standards was allowed to be used for listings

on US stock exchanges without requiring mandatory reconciliation to US GAAP. Until the US SEC made its groundbreaking announcement, all foreign private issuers (FPIs) were required to reconcile to US GAAP financial statements filed with the US SEC if those statements were prepared using any standards other than US GAAP. Although this exception to file financial statements without reconciliation to US GAAP was limited to FPIs, it marked a major breakthrough for the IFRS in the United States.

8.3 In August 2008, the SEC went a step forward and announced a possible relaxation of its rules to permit the use of IFRS by US issuers (i.e., US domestic companies) provided certain “milestones” were achieved. Accordingly, the SEC announced a road map (the *US SEC IFRS Roadmap*), under which the SEC would decide whether to mandate the use of IFRS for US issuers.

8.4 The SEC later amended its initially announced plans and replaced the *US SEC IFRS Roadmap* with the *SEC Work Plan*. In February 2010, the SEC announced a new timeline that envisages 2015 as the earliest possible date for the required use of IFRS by US public companies. The SEC action calls for more study of IFRS and a vote on whether to move ahead with a mandate to use IFRS. Although it affirms the SEC’s desire to keep moving toward IFRS adoption, the new timeline offers issuers some breathing room from the 2014 deadline originally spelled out in the 2008 roadmap. The original roadmap also would have allowed certain US companies to use IFRS before 2014, but, under its new strategy, the SEC is not allowing the early adoption option and has withdrawn the proposed rules that would have permitted early adoption.

8.5 In announcing the work plan, the SEC explained that requiring US public companies to report in IFRS was a highly significant decision that it would not make unless it was certain that doing so was the best move for investors and the companies involved. At the same time, the SEC did recognize that IFRS is best positioned to serve as the single set of high-quality global accounting standards. In announcing the plan, the SEC stressed that “the [SEC] work plan does not raise any new obstacles or establish a checklist prior to the use of IFRS. . . . It sets forth key steps and processes [the SEC] staff will take to provide necessary information to the commission [the SEC] and to evaluate key transitional issues in transitioning to IFRS in order to drive the process.”¹ Therefore, the work plan mandated the SEC staff to conduct research, seek comments from, and hold discussions with investors, preparers, auditors, attorneys, and academics, among others. Recommendations from the SEC staff have been formalized, but the final decision on adoption of IFRS by the United States is expected by the end of 2012.

9. THE WAY FORWARD

9.1 IFRS are clearly emerging as a global financial reporting benchmark. Most countries have already started using them as their benchmark standards for listed companies. However, if these international standards are not applied uniformly across the world due to interpretational differences, their effectiveness as a common medium of international financial reporting will be in question. If different entities within the region apply Standards differently based on their own interpretations, global comparison of published financial statements of entities using IFRS would be difficult. Debate still rages among accountants and auditors globally on many contentious accounting issues that need a common stand on the interpretation of the issues based on the proper understanding of the applicable Standards.

9.2 Undoubtedly, for years, US GAAP led this international race to qualify as the most acceptable set of accounting standards worldwide. However, for several reasons, including the highly publicized corporate debacles at Enron, the global choice of most countries apparently has tilted in favor of IFRS. Indeed, many countries have stopped replacing their existing requirements with US GAAP.

9.3 With the current acceptance of IFRS in over 100 countries, IFRS has made tremendous strides toward global acceptance. However, some believe that the race for global acceptance of accounting standards is not over yet. Although a significant number of countries have adopted IFRS,

¹ Journal of Accounting (February 2012).

some very important jurisdictions have not yet completely accepted or converged with IFRS as their national GAAP or allowed their use by their domestic companies either fully or as an alternative to their national GAAP; these countries include the United States, China, Japan, and India. Unless such major economic powers converge with IFRS or accept them as their national GAAP, it may be difficult to call IFRS a worldwide set of accounting and financial reporting standards.

9.4 The United States may accept IFRS for use by domestic users under a newly announced “condorsement” approach (a combination of “convergence” and “endorsement”). The term “condorsement” was introduced by Paul A. Beswick, the deputy chief accountant of the SEC, while addressing the American Institute of Certified Public Accountants (AICPA) National Conference in Washington, DC, 2010.

The condorsement approach (regarded by some as a hybrid model to adopt IFRS in the United States) has been reported extensively in accounting literature in the United States and has received support from the SEC and several other stakeholders, including the AICPA.

9.5 Extract from the SEC Staff Paper

Section 9.5.1 is an extract from the SEC Staff Paper dated May 26, 2011 (www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-052611.pdf)

9.5.1 Overview

At the end of [the transitional] period, the objective would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB. Incorporation of IFRS through the framework would have the objective of achieving the goal of having a single set of high-quality, globally accepted accounting standards, while doing so in a practical manner that could minimize both the cost and effort needed to incorporate IFRS into the financial reporting system for U.S. issuers. It also would align the United States with other jurisdictions by retaining the national standard setter’s authority to establish accounting standards in the United States.

9.5.2 Future Role of the FASB in the United States According to the SEC Staff Paper

In addition to incorporating new IFRS amendments into U.S. GAAP, the FASB also would exercise its authority as the national standard setter when it found, based on its experience in the ongoing interpretation or application of IFRS incorporated into U.S. GAAP, that supplemental or interpretive guidance was needed for the benefit of U.S. constituents.

Under the framework, the FASB should initially address this situation by informing the IASB of the potential gaps in authoritative guidance and providing the IASB a recommended solution to address the practice issues, but ultimately, the FASB could conclude an acceptable solution is not reached or the issue is not being addressed in a time frame consistent with the needs of the U.S. capital markets. Accordingly, the FASB could exercise its authority in one or more of the following ways:

- *Adding disclosure requirements to those specified by IFRS, to address U.S. circumstances in a manner consistent with IFRS;*
- *Prescribing which of two or more alternative accounting treatments permitted by IFRS on a particular issue should be adopted by U.S. issuers, to achieve greater consistency in U.S. practice; or*
- *Setting requirements compatible with IFRS on issues not addressed specifically by IFRS. In particular, the FASB could decide to carry forward certain such requirements that already exist in U.S. GAAP, with any necessary conforming amendments.*

If the FASB were to exercise this authority, a U.S. “flavor” of IFRS could result. However, U.S.-specific circumstances for which the FASB would consider modifying IFRS should be similar to the circumstances in which the Commission exercises its authority to amend or add to the standards issued by the FASB and, therefore, modifications should be rare and generally avoidable.

The SEC is yet to make a decision as to whether and, if so, how to incorporate IFRS into the financial reporting system for US issuers. The SEC Staff Paper notes that it is not intended to suggest that the SEC has decided to incorporate IFRS or that the condorsement approach is the preferred or only possible approach. The paper also notes the SEC staff is continuing to consider the

possible mechanics and implications of an early-adoption option for US issuers to use IFRS and how it would work in the context of the approach explored in the paper or otherwise.

9.6 Most predict that the IFRS will become the globally accepted standard, but no one knows when: in five years, ten years, or whenever. However, some accounting gurus believe that until economic super-powerhouses such as China, India, and Japan announce their full commitment to domestic adoption of IFRS, there will be a yawning gap in the achievement of true global convergence. To a large extent, the decision of the United States would bridge this gap and be felt far beyond the borders of the country. If US domestic companies are required to use IFRS, the future of the Standards would change dramatically.

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