



# IFRS: the ultimate choice of the accounting world or will the “IASB” march to a different drummer?

With its recent issuance of a controversial ‘exposure draft’ – a proposed standard – on ‘Financial Instruments,’ the U.S. Financial Accounting Standards Board (FASB) has taken a vastly different approach to financial reporting to that taken by the International Accounting Standards Board (IASB). At the end of 2009, the IASB had promulgated their own version of the revised standard on ‘Financial Instruments’ – a new standard entitled ‘IFRS 9’ – in response to a call by the finance ministers and governors of central banks of the G20, representing the 20 most powerful economies of the world. Some believe this latest move by the U.S. FASB does not fit well with the global ‘convergence’ initiative and the various standard setters around the globe.

Several moot questions, including the ones set out below, are now plaguing the minds of the stakeholders in the financial and accounting world, especially the regulators, financial statement users and preparers:

- Will the International Accounting Standards Board (IASB) toe the line and compromise with the way of thinking of the FASB, the U.S. standard setter? Or,
- Is there still hope for the emergence of a universal standard, an Esperanto of Accounting?
- In other words, will International Financial Reporting Standards (IFRS), the standards promulgated by the IASB (an international standard setting body with Board members from several nations who are regarded as ‘best of breed’ from across the globe) be the ultimate choice of the accounting and financial world?

Let us examine as to where it is all going in terms of the globalization of financial reporting and the convergence of standards worldwide. To comprehend it from a layman’s perspective, an oft-quoted verse from Shakespeare’s *Romeo and Juliet* perhaps best depicts the point: “What’s in name? That which we call a rose by any other name would smell as sweet”. Can the same be said of financial statements prepared in different jurisdictions of the globe? Not too far in the distant past, countries and economic regional blocs, such as Europe, would not be swayed by the thought of converging to a single set of global accounting standards and, due to such nationalistic approaches to accounting standard setting, a financial statement issued in Japan (under the Japanese accounting standards) used to be vastly different in terms of

accounting treatments and disclosures compared to a financial statement issued in other major parts of the world, say, in Germany where German accounting standards were used hitherto. In other words, the “name” did matter for several countries since their national standard setters strongly believed that their own national accounting standards were suitable for their needs and were compatible to other globally preferred accounting standards. However, due to the advent of globalization, the falling of the erstwhile insurmountable barriers between nations and more recently, the much-awaited response to the global financial crisis, things have changed dramatically in terms of the preferred set of standards of accounting globally. The accounting and financial world is now seriously considering the notion of using a single set of accounting and financial reporting standards that would be used by most, if not all, the nations around the globe. In all likelihood the name of the global accounting standards may be “IFRS”!

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The acceptance of IFRS around the world by more than 100 countries, including global players that have either agreed to allow their standards to converge to IFRS or have permitted the use of IFRS as their national standards, is an extraordinary achievement for the IASB. The tidal wave of first-time adoptions of IFRS that swept through Europe in 2005 as a result of the decision of the European Union to require all listed companies in this major economic bloc to use IFRS for their consolidated financial statements proved to be a significant turning point in the history of IFRS. The decision by the U.S. Securities and Exchange Commission (SEC) in November 2007 to allow foreign private issuers to enter the U.S. capital market using IFRS-compliant financial statements without reconciling to U.S. GAAP (Generally Accepted Accounting Principles) was yet another defining moment for IFRS. Several major economies in the world (including global players such as Canada, China, India, South Korea and Brazil) have agreed to adopt IFRS in the (near) future. Commenting on how many more countries are expected to adopt IFRS by 2011, Sir David Tweedie, chairman of the IASB, remarked, “we reckon by about 2011, there'll be 150 — all the major economies.” (*“Accountancy”*, January 2008).

While the accounting world may have reason enough to rejoice at the prospect of finally being able to sing the “one world, one music” accounting standards tune, there are some who still have doubts about the commitment of the U.S. to allow that to happen soon. This is mainly due to the U.S. SEC’s announcement in November 2009 that it will alter its stand on IFRS acceptance by adding a new dimension in the U.S. — the “U.S. SEC Work Plan” which would assess if and when would be the right time for the U.S. to plunge into the IFRS stream. This move has evoked mixed emotions internationally about the U.S. SEC’s intentions.

Let us look at some viewpoints on this highly volatile issue/burning question: will the US accept international accounting standards for domestic use, and, if so, when will the U.S. offer a favorable nod to these global standards, allowing them unconditional entry onto the U.S. domestic scene?

In a statement made at a presentation to the Annual Conference of the CFA Institute held on May 18, 2010 in the U.S. by the U.S. SEC Chairman, Mary Schapiro debunked the below-listed "myths" about the U.S. SEC's stand on International Financial Reporting Standards (IFRS) with a clear-cut "NO":

Myth #1: The SEC's commitment to global accounting standards is not as strong as it should be.

Myth #2: The U.S. may be committed, but it is dragging its feet regarding adoption of IFRS.

Myth #3: The United States is fixated on process.

Myth #4: America is protecting its parochial interests.

Some believe that such an unambiguous public support for IFRS has not been offered by the U.S. hitherto and they are right in this belief since the U.S. support for IFRS has usually been a bit lukewarm and never in clear-cut terms.

To understand why many in the accounting and financial world are skeptical about the U.S. SEC's commitment towards acceptance of IFRS, let us examine the specific areas of concern to be addressed in the U.S. SEC's Work Plan. These include:

- Sufficient development and application of IFRS for the U.S. domestic reporting system;
- The independence of standard setting for the benefit of investors. Composition of the IFRS Foundation and the IASB;
- Investor understanding and education regarding IFRS;
- Examination of the U.S. regulatory environment that would be affected by a change in accounting standards;
- The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies; and
- Human capital readiness.

Looking at the afore-mentioned areas of concerns that the U.S. SEC is still wanting to address (while several other global players have already publicly announced their unequivocal support for IFRS) many in the accounting and financial world are raising questions about the possibility of acceptance of IFRS by the U.S. for domestic use in the near future.

People are wondering whether there is any silver lining to this cloud. Questions are also being raised as to the extent of convergence of IFRS with U.S. GAAP and to what extent the U.S. FASB is ready to move towards IFRS. Yet another important question on everyone's mind is: if the U.S. SEC does finally accept IFRS for domestic use, "when" can the world of accounting expect to see light at the end of the tunnel? All these remain unanswered questions and time will only tell whether IFRS will win the coveted title of the Global Accounting Standards. Let us keep our fingers crossed that it will happen soon!

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