

Standard setting in political environment



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Introduction Accounting standards dominate the accountant's work. These standards are being constantly changed, deleted, and/or added to, both in the United States and abroad. They provide practical and handy rules for the conduct of the accountant's work. They are generally accepted as firm rules, backed by sanctions for nonconformity. Accounting standards usually consist of three parts: * A description of the problem to be tackled A reasoned discussion (possibly exploring fundamental theory) or ways of solving the problem * In line with decision or theory, the prescribed solution In general, standards, especially auditing standards, have been restricted to the prescribed solution, which has generated a lot of controversy about the absence of supporting theories and the use of an ad hoc formulating approach. The general trend, however, is to include the description and the reasoned discussion, thereby providing a concise, theoretically supported rule of action.

The Public Interest Theory was implicit in our examination of standard-setting. The theory suggests that regulation is required to answer the demand of the public for correction of market failures. The theory assumes that the central authority has the best interests of the society as its objective. In other words it does its best to maximize social welfare. The regulation is a trade off between the costs involved and the benefits received by society. The Interest Group Theory takes the view that an industry operates in the situation where there are a number of interest groups (constituencies).

Development of standard setting approaches in various countries IASB The International Accounting Standard Board (IASB) is the independent,

accounting standard-setting body of the IFRS. The IASB was founded on April 1, 2001 as the successor to the International Accounting Standard Committee (IASC). It is responsible for developing IFRS and promoting the use and application of these standards. The International Financial Reporting Standard (IFRS) was incorporated as a tax-exempt organization in the US state of Delaware.

The IFRS also the parent entity of the IASB, an independent accounting standard-setter based in London, England. The IASB has 14 Board members. They are selected as a group of experts with a mix of experience of standard-setting, preparing and using accounts, and academic work. In January 2009, they have their meeting with the Trustees of the Foundation concluded the first part of the second Constitution Review, announcing the creation of a Monitoring Board and the expansion of the IASB to 16 members and giving more consideration to the geographical composition of the IASB.

FASB Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that governs the preparation of financial reports by nongovernmental entities. Those standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants. The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934.

Throughout its history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest. The

mission of the FASB is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

That mission is accomplished through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and is subject to oversight by the Financial Accounting Foundation's Board of Trustees. MASB Standard setting in Malaysia entered a new era with the Financial Reporting Act 1997 which established the Financial Reporting Foundation (FRF) and the Malaysian Accounting Standard Board (MASB) in 1997. The Financial Reporting Act 1997 was gazette on 6 March, 1997.

The FRF is established under the Financial Reporting Act 1997 (Act). The FRF comprises representation from all relevant parties in the standard setting process, including preparers, users, regulators and accountancy profession. The FRF, as a trustee body, has responsibility for the oversight of the MASB's performance, financial and funding arrangements, and as an initial source of views for the MASB on proposed standards and pronouncements. It has no direct responsibility with regard to standard setting. This responsibility rests exclusively with the MASB.

The aims of the MASB are to implement an efficient, effective structure and 'due processes' for the development of MASB Standards, a conceptual framework and other forms of authoritative guidance. Other than that, MASB also aim to pursue the development of MASB Standards, a conceptual framework and other authoritative guidance on a basis that recognizes that

users of financial statements are the primary customer, so that those users are better able to make economic decisions. The MASB established a committee in May, 2002 known as the Issues Committee to replace its predecessor, Interpretation Committee.

The change in name reflects the expanded scope of the committee which, in addition to dealing with interpretations of approved accounting standards, also deals with other accounting related issues where there are no existing accounting standards. The committee, hence, is responsible for reviewing accounting issues that have received or likely to receive different views in interpretation and to provide recommendations to the Board for decision. Standard setting approaches MFRSs are full convergence, which are copy word by word of IFRSs issued by the IASB except for the terminologies.

The due process of MFRS Framework aligns the MASB's due process timeline to that of the IASB with the aim of putting the new or amended standards in place for adoption and application within a timely manner. This is to ensure, that the effective date of the new or amended standards will be the same as that of IFRSs. * Stage 1: MASB seeks public comment on IASB's draft technical pronouncements. The IASB's draft technical pronouncements include Discussion Paper, Exposure Draft and Request for Views.

MASB will disseminate the IASB draft pronouncements together with an Invitation to Comment to local constituents by publishing on MASB website a " Comment Online" feature and sending a copy of the documents to the relevant authorities, professional bodies, accounting firms, industry related associations, and public listed companies. The due date for the public to submit comments to MASB is usually one month before IASB's comment

deadline so as to allow MASB Working Group and the Board a reasonable time to consider the comments received before making a submission to the IASB.

In addition, public forums may be organized if these IASB draft pronouncements represent major change or shift from current practice. *

Stage 2: Deliberation at the Working Group level on IASB's draft pronouncements The IASB's draft pronouncements will be deliberated in WG meetings and to provide comment / recommendation to the issues raised in the draft pronouncements for the Board's consideration. The WG will also consider public comments received and their recommendations on those comments for the Board's consideration. Stage 3: Deliberation at the MASB (the Board). The public comments received, Working Group's comments and recommendations will be tabled at the Board for deliberation and consideration. During the discussion, the Board will consider all comments received and thereafter, a comment letter to the IASB will be prepared and submitted to IASB accordingly. *

Stage 4: Issuance of Standard by IASB. Following publication of the final standard by the IASB (IFRS), the Working Group will deliberate on the changes made, if any, from the draft pronouncements.

Thereafter, the Working Group's views or recommendation, including possible issues/ implications, if any, of the IFRS will be presented to the MASB for consideration. *

Stage 5: Issuance of standard by MASB. After due deliberation by the Board, copy of the MFRS (word-for-word with IFRSs) would be presented to the FRF members for their comments before it being issued as approved accounting standards in Malaysia. Ethics of standard

setting It is likely that if there was no regulation, markets would cease to work.

Have two motivations, there are the external motivation - the enforcement approach, a regulator, and the internal motivation - the people will want to keep their promises and honour contracts. The more ethically that people behave, the greater reduction there would be in required regulation. One way to look at it would be, for example, if all professionals acted in their own self-interest, ignoring the clients' recognition, in due course clients would become very suspicious.

Regulations would grow and professionals would be very carefully looked into. However, if professionals can be trusted to act in a trustworthy way, then it could be a win-win situation. It goes beyond adopting a code of ethics. Professionals would have to act professionally towards the client. Professionals must become transparent in their actions so clients will have full trust in their actions. Certainly professionals have self-interest and this must be taken into account.

As some regulation would be required, what about standard setting from an ethical point of view. When accountants are dealing with clients there is very likely an imbalance of accounting knowledge between the two but accountants should not impose their own values on the client. Issues involved in standard setting The standard setting bodies have an ethical issue because the standards set for clients, those who manage the companies, have a third dimension, as the managers' interests often conflict with those of the public.

Our case is the investing public, the third party. Now investors needs are well served by good disclosure of material. But we have seen in our previous modules that standards that are beneficial to the investor often impose burdens on the managers, volatility. Whose interests should the regulator serve. Duska & Duska, stated the accountant and the regulator can easily reconcile the obligations by acting with integrity. In the long-run the interests of the public and the investor merge.

The answer comes across clearly in Duska & Duska. They argue that the profession has an obligation to " look out for the best interests of the client, avoiding the temptation to take advantage of the client"; this quotation implies the public interest theory. It is important to consider the debate between what is termed " rules-based" and " principle based" accounting standards. It is important to consider the debate between what is termed " rules-based" and " principlebased" accounting standards.

Considering Enron's actions they were strictly based on rules actions of GAAP. They were not based on " principles" There is a difference. Rules attempt to put down detailed directions to be followed, and it is difficult to cover all situations. The Principle indicates the intent we have in mind and the course we follow. It is putting into effect the real ethics we wish to pursue. Accounting issue in Islamic Financial Institution

Accounting standards are developed in various parts of the world and are predominantly developed based on the environment of local jurisdiction and typically the behavior of the large and most often multinational corporations would be subjected to these standards. MASB has also appointed a Working Group to develop a framework of accounting concepts based on the Shari'ah

principles to assist the Board in developing financial accounting and reporting standards for the recognition, measurement and disclosure of transactions based on Shari'ah principles which would facilitate the development of the Islamic Capital Market.

The main characteristics that influenced the environment of an Islamic bank in the Shari'ah and this has to be central in the development of accounting standards for Islamic banks, which was not part of the consideration of the international standard setter. There are major differences between Islamic banks and Conventional banks that impose difficulties for Islamic banks to comply with standards not actually meant for them. Appropriate mechanism to track the risks and rewards other than a financial reporting system, which Islamic financial institution were deprived of prior to AAOFI.

Foundation of setting standards for Islamic financial institution is on the basis of filling in a vacuum that conventional standards have left void. AAOFI did not reject existing GAAP standards except in cases where such principles conflict with Shari'ah principles. It is clearly stated in AAOFI's Statement of Objectives that " it is natural that there should be differences between objectives of other bank and objectives of Islamic bank. The kinds of issues addressed by AAOIFI Standards. Substance over form

The framework of accounting standards by IAS and other generally accepted accounting standards require that the accounting information is presented according to the substance and economic reality and not merely the legal form. Requiring and entity that enjoys a greater of economic benefits of an asset to report the asset in their balance sheet appeared in a leasing contract in consistent with this postulate. Apparently this characteristic of

accounting principles is in violation of Shari'ah and hence is not recognized by AAOIFI standards.

Prudence Prudence is a concept that appears in the IAS Framework of Accounting Standards and promotes the need to be cautious in overstating asset or profits especially in the business world. AAOIFI Standards are silent on this characteristic of financial reporting. The reason that can be attributed to the silence which must not be read as an objection, is that such a principle conflict with the very idea that financial reporting in Islam should focus on fair reporting of an entity's financial position. AAOIFI Standards are silent with regards to the concept of prudence and leaves it to the best discretion of the preparers of financial statements to compile with their local regulatory requirements. **Asset Valuation** Typical measurement basis is the historical cost measurement simply because this is the most commonly adopted by the enterprises in preparing their financial statements. Islamic bank's financial report the measurements of asset would also very much be influenced by the terms of the Shari'a contract underlying the product.

AAIOFI's standard requires the bank to value the asset in their balance sheet on the basis of cash equivalents value. The other aspects where AAIOFI standards depart from conventional practice is on the treatment of asset in an Ijarah Muntahia Bittamleek contract. IMBT is an innovation is in fiqh to satisfy the financial lease contracts in conventional practice. IMBT is a combination of two contracts which runs sequentially one after the other and the reporting of the financial transaction as mentioned in AAOIFI's FAS 8, IMBT would reflects