

Information systems strategy



International Accounting Standards Committee (IASC) was formed in 1973 in consequence of an agreement between accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland as well as the United States for setting International Accounting Standards. Since 2001, the IFRS Foundation has been conducting the standards-setting work for the International Accounting Standards Board (IASB). (<http://archive.iasb.org.uk/about/history.asp>) (26/10/10)

Jorissen, Lybaert, & Van de Poel (2006) stated in their article that since the adoption of the International Accounting Standards (IAS), IASB has grown in importance and has, arguably, acquired the status of a private standard-setter whose activities are of primary interest to a global audience.

Moreover, its standards are developed through lengthy public consultation procedures which may include the undertaking of field tests, invitations to comment on exposure drafts, public round-table meetings and public hearings.

The International Accounting Standards Committee Foundation (IASCF) was brought into practice after an increase in the importance of the international accounting standards by the IASB in 1999. The process was incorporated in USA and in February 2001 it was an independent not-for-profit organisation. It is managed by 22 IASC Foundation Trustees who have an understanding of international issues relevant to accounting standards for use in the world's capital markets.

The main objectives of the IASC Foundation are: to develop a single set of high quality and comparable accounting standards that would help users in

making economic decision; to promote the using and applying of these standards; and to bring convergence in the national and international accounting standards.

The IASC Foundation has various internal bodies; these are the International Accounting Standards Board (IASB), the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC).

The International Accounting Standards Board (IASB)

The outcomes from reformation made the IASB assume they are responsible for setting the accounting standard instead of assume the responsibility for setting accounting standards from its predecessor body, the International Accounting Standards Committee. The trustees are the people responsible for selecting the members of the above bodies. They also set plans, raise funds for IASB; on the other hand the IASB is solely responsible for setting the accounting standards, , International Financial Reporting Standards (IFRS), following exact and open due process.

The Standards Advisory Council offers opportunities for experts from different countries and different business division with a concern in the international financial reporting to offer advice when setting new standards. Its main objective is to give advice to Trustees and the IASB about the agenda decisions, work priorities and other standard setting projects.

The International Financial Reporting Interpretations Committee is a body that fulfils the role of providing guidance on the application and interpretation of international accounting standards where debatable interpretations of accounting standards arise. It functions in an open due

process together with its procedures. Its statements are important because the financial statements cannot be portrayed as fulfilling with IFRSs unless they also comply with the interpretations.

Other Bodies

The importance of IASB has increased even more by its relationship with International Organisation of Securities Commissions (IOSCO). IOSCO is a powerful organisation in the stock exchange world. In 1995 the IASC developed a set of standards that were authorised by IOSCO and these were used as cross-border listings. In May 2000 this was achieved and set as a stepping stone towards the global accounting harmonisation. As part of its harmonisation process the European Union will require listed companies in all member states to prepare their financial statements using IFRSs by 2005.

National standard setters such as the UK's Accounting Standards Committee and the USA's Financial Accounting Standards Board have a role to play in the formulation of international accounting standards. Seven of the leading national standard setters are members of the IASB. The IASB see this as a 'partnership' between IASB and these national bodies as they work together to achieve the convergence of accounting standards worldwide. Often the IASB will ask members of national standard setting bodies to work on particular projects in which those countries have greater experience or expertise. Many countries that are committed to closer integration with IFRSs will publish domestic standards equivalent (sometimes identical) to IFRSs on a concurrent timetable.

The structure shows various parts of the organisation in the diagram. It is composed of

the oversight body (IASCF), the advisory body (SAC) and the interpretative body (IFRIC) which represents the professional backgrounds and membership of the standard-setting body (IASB) based on the principles of technical competence and independence <http://archive.iasb.org.uk/about/structure.asp> on 26/10/10

Diagram 1. 1: Structure adopted from <http://archive.iasb.org.uk/about/structure.asp>

Question 2

Describe how the IASCF's standard setting process including how standards are produced, enforced and occasionally supplemented.

George (2010) stated in an accounting review that during the period of study 2001 to June 2006, it consisted – as it still does – of six identifiable stages during which an interested party can lobby before the adoption of an IFRS.

The six stages are as follows:

1. Agenda formation stage.
2. Drafting and adoption of a discussion paper.
3. Exposure period of a discussion paper.
4. Drafting and adoption of an exposure draft.
5. Exposure period of an exposure draft.

6. Drafting and adoption of an IFRS.

IASB identifies a subject and appoints an Advisory Committee to advise on the issues relevant to the given topic. The Board will later deliberate whether or not the topic should be added to its agenda. Depending on the complexity and importance of the subject matter, the IASB may develop and publish Discussion Documents for public comment. A simple majority of IASB members voting in favour is sufficient for the topic to be added to the agenda. IASB then develops and publishes an Exposure Draft for public comment. In this case, a project director with the help of an advisory group undertakes the drafting of a discussion paper. The discussion paper is published and comments are formally invited from any interested party. The comment letters submitted on the discussion paper, and all other input received, e. g., evidence given at public hearings or round-table meetings which the IASB may have decided to hold, are used in the drafting of the exposure draft. For the exposure draft to be approved, nine IASB member votes are required (was eight member votes up to July 2005 (IASCF, 2005)). The usual comment period for both of these is ninety days. Finally, and again after a review of any further comments, an International Financial Reporting Standard (IFRS) is issued. The IASB also publishes a Basis for Conclusions which explains how it reached its conclusions and gives information to help users to apply the Standard in practice. In addition to the above the IASB will sometimes conduct Public Hearings where proposed standards are openly discussed. Besides that, Field Tests will be done in developed countries and also emerging markets to make sure the proposed standards are convenient to the users in all environments.

Question 3

Comment on whether you feel the current movement towards global accounting standards has been successful.

THE SUCCESS

Any measure of the movement towards the accounting standards is a matter of opinion. In recent years, the International accounting standards have been improved throughout the world, by doing the project improvement and a lot of continuing improvements the IASB able to gain quality in its performance. One reason why IASB is considered success is the European Union require listed companies and number of countries that are about to adopt international accounting standards outright and deciding their accounting standards to be very close to IFRSs. And also there is a big endorsement from IOSCO to support the growing acceptance of IFRSs in global accounting standards.

IOSCO notes that a body of accounting standards like the IASC must continue to evolve in order to address existing and emerging issues. IOSCO's recommendation assumes that IOSCO will continue to be involved in the IASC work and structure and that the IASC will continue to develop its body of standards.

THE CRITICS

However, when there are some successes there are some critics also. Some develop country that already have some kind of sophisticated regulatory system are still consider IASB as not rigorous as local standards, and this is will cause a cross border country taking advantages of a domestic

companies. Some of the IFRSs requirements are also controversial, example: deferred tax (IAS 12), financial instruments and derivatives (IAS 32 and 39) and accounting for retirement benefits (IAS 26)

Many IFRSs are complex and the benefits of applying them to smaller enterprises may be outweighed by the costs. Also some securities exchanges that are part of IOSCO require non-domestic companies that are listing by filing financial statements prepared under IFRSs to produce reconciliation to local GAAP.

This involves reconciling the IFRS income statement and balance sheet assets, liabilities and equity, to what they would be if local GAAP had been used.

The USA is an important example of this requirement. Critics argue that this requirement negates many of the benefits of being able to use a single set of financial statements to list on different security exchanges. This is because to produce reconciliation to local GAAP is almost as much work and expense as preparing financial statements in the local GAAP which was usually the previous requirement.

Despite these criticisms there is no doubt that the work of IASB has already led, and in the future will lead, to further improvement in financial reporting throughout the world.

Question 4

There are those who suggest that any standard setting body is redundant because accounting standards are unnecessary for regulating financial statements. Discuss this statement.

Before the standardization of accounting models, countries such as United Kingdom, United States, Continental Europe, Latin America and even Australia had their own accounting models which possessed significant differences as a result of its respective local cultures and history. For example, Europe applies the conservatism principle and Latin America focuses on systems relating to the effects of inflation into reporting accounts. The effort towards the internationalism of accounting standards was started by the International Accounting Standards Committee since 1973 with the participation of countries such as the United States and United Kingdom, this has in time become prominent with the representation of 106 countries and the issuance 31 accounting standards so far.

However, there are still those who feel that accounting standards are unnecessary. This is mainly because they feel that the application of the accounting standards would bring more disadvantages such as higher costs involved, affects investor relations and severe penalties imposed by the standards board.

Take for example, the International Employee Stock Options Collation (IESOC) has condemned the International Accounting Standards Board's (IASB) Exposure Draft on stock options, claiming the projected mandatory expensing is unnecessary or inappropriate. The IESOC assumes that by providing improved disclosures on a frequent basis, they provide investors

with accurate and more significant information however mandatory expensing will mislead investors with many errors in the figures. The IESOC also claims that there cannot be a consistent way to evaluate employee stock options and hence argue that expensing as a poor form of accounting. Besides that, the strict penalty which the IASB's proposal would carry affects private companies as it would greatly obstruct the IPO market.

Nevertheless, in my opinion the accounting standards are in fact necessary as it carries more benefits to the accounting world as whole. With the rapid globalisation of businesses, it is vital for investors to evaluate the trustworthiness of investing in companies in a transparent way which requires the similarity of accounting standards. The same ideology applies for businesses that are operating internationally as they are required to produce financial statements which are perceivable in whatever country they operate in as any international trading necessitates a universal language or translation among traders. Thus, there is a need for mutual way of status reporting, assets and liabilities.

Furthermore, the convergence that the IASB brings also allows the global economy to be fully realised through the synchronization of accounting standards by simplifying international transactions and reducing the exchange costs as it provides near “ perfect” information. This makes it possible for global investment decisions to be made with less risk and indirectly allow the worlds resources to be administered and allocated in a more efficient way.