Part I – Accounting Regulation; International Accounting

INTERNATIONAL ACCOUNTING

- IASB: history, governance and processes
  - IFRS users/European Union
    - June 2000 – The EC adopted the Financial Reporting Strategy for the 28 member states
    - Reg. 1606 of 2002 has required that all listed EU companies prepare their consolidated accounts according to IFRS (2005)
    - The EU is authorised to extend the IFRS requirement to the consolidated accounts of non-listed companies and also to the separate statements of parent companies
In 2001 the European Financial Reporting Advisory Group (EFRAG) was established with the main aim of endorsing the IAS/IFRS with reference to the Fourth and Seventh Directives. Before IAS/IFRS become officially required under European law, they must be endorsed by an Accounting Regulatory Committee (ARC) of the EU, following the technical recommendations of EFRAG. The technical recommendations of EFRAG can be accessed at ec.europa.eu/internal_market/accounting/committees/arc_endorsement_decision_en.htm.
INTERNATIONAL ACCOUNTING

• The standard setting process
  • Discussion Paper (for public comment on major projects before it issues an ED)
    • Exposure Draft – ED (issued for public comments)
    • Final Standards
  • The IASB
    • Has full discretion over its technical agenda
    • Is responsible for establishing the operating procedures for reviewing comments on EDs and other documents
    • Is required to consult the Standards Advisory Council on major projects
  • All meetings of the IASB are open to public observation (20-50 observers)
  • Standards and EDs must be approved by 9 out of the 15 IASB members

INTERNATIONAL ACCOUNTING

IASB Standards Setting Process

Input from
Advisory Council,
Working group,
International groups,
Analysis, preparers,
Audit technical partners,
Special interest groups,
Local standards setters,
Regulators,
Political groups

Published IFRS

Public consultation

ED

Public consultation

Feedback Statement

Jurisdictional Adoption Process

IASB two-years post implementation review
Adoption of IAS around the world

- **Australia**: the standard setter has replaced national standards with Australian equivalents to the IFRS (effective since 2005)
- **Canada**: the Accounting Standards Board announced in January 2006 that, for publicly traded companies, the IFRS would replace the Canadian GAAP
- **EU**: has required IAS for all listed companies since 2005

The following countries have developed their own GAAP adopting IAS:

- New Zealand, South Africa, Singapore, Hong Kong, the Philippines, Bahrain, Croatia, Cyprus, the Dominican Republic, Ecuador, Egypt, Haiti, Kenya, Malta, Nepal, Oman, Panama, Tajikistan, the United Arab Emirates and Venezuela
The IASB: history, governance and processes

• Use of IFRSs Around the World Today
  • For domestic listed companies:
    • IFRSs required for all (91 jurisdictions)
    • IFRSs required for some (6)
    • IFRSs permitted (26)
  • Today, IFRSs are used by listed companies in 123 jurisdictions

• For domestic unlisted (private) companies:
  • IFRSs required for all (24 jurisdictions)
  • IFRSs required for some (28)
  • IFRSs permitted (44)
  • Today, IFRSs are used by unlisted companies in 96 jurisdictions
### INTERNATIONAL ACCOUNTING

**The IASB: history, governance and processes**

<table>
<thead>
<tr>
<th>Based on announced plans</th>
<th>2010</th>
<th>2013</th>
<th>If Japan 2015</th>
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<tbody>
<tr>
<td>Which GAAP?</td>
<td></td>
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<tr>
<td>IFRS and word for-word</td>
<td>39%</td>
<td>46%</td>
<td>60%</td>
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<tr>
<td>Equivalents</td>
<td></td>
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<tr>
<td>US GAAP</td>
<td>31%</td>
<td>31%</td>
<td>28%</td>
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<tr>
<td>National GAAP</td>
<td>30%</td>
<td>23%</td>
<td>12%</td>
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Between its creation in 1973 and its reorganization into the IASB in early 2001 the IASC developed 41 standards.


- IAS1, Presentation of Financial Statements
- IAS2, Inventories
- IAS3, Consolidated Financial Statements (issued in 1976; effective in 1977; no longer effective; superseded in 1989 by IAS27, 28)
- IAS4, Depreciation Accounting (withdrawn in 1999; replaced by IAS 16, 22, and 36, all of which were issued or revised in 1998)
- IAS5, Information to be disclosed in Financial Statements (issued in 1976, effective 1997; no longer effective; superseded by IAS1 in 1997)
- IAS7, Cash Flow Statements
- IAS8, Accounting Policies, Changes in Accounting Estimates and Errors
INTERNATIONAL ACCOUNTING

- Complete list of IAS/IFRS (1973–2010)
  - IAS9, Accounting for Research and Development Activities (superseded by IAS38; effective 1999)
  - IAS10, Events After the Balance Sheet Date
  - IAS11, Construction Contracts
  - IAS12, Income Taxes
  - IAS13, Presentation of Current Assets and Current Liabilities (superseded by IAS1)
  - IAS14, Segment Reporting (superseded by IFRS8)
  - IAS15, Information Reflecting the Effects of Changing Prices (withdrawn by the IASB in 2003)
  - IAS16, Property, Plant and Equipment
  - IAS17, Leases
  - IAS18, Revenue
  - IAS19, Employee Benefits
  - IAS20, Accounting for Government Grants and Disclosure of Government Assistance
  - IAS21, The Effects of Changes in Foreign Exchange Rates
  - IAS22, Business Combination (superseded by IFRS3, effective 2005)
  - IAS23, Borrowing Costs
  - IAS24, Related Party Disclosures
  - IAS25, Accounting for Investments (superseded by IAS39, 40, effective in 2001)
  - IAS26, Accounting and Reporting by Retirement Benefit Plans
INTERNATIONAL ACCOUNTING

• Complete list of IAS/IFRS (1973–2010)
  • IAS27, Consolidated and Separate FSs
  • IAS28, Investments in Associates
  • IAS29, Financial Reporting in Hyperinflationary Economies
  • IAS30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions (superseded by IFRS7; effective in 2007)
  • IAS31, Interests in Joint Ventures
  • IAS32, Financial Instruments: Disclosure and Presentation (Major portions superseded by IFRS7; effective in 2007; IAS 32 in renamed Financial Instruments: Presentation)
  • IAS33, Earnings Per Share
INTERNATIONAL ACCOUNTING

- Complete list of IAS/IFRS (1973–2010)
  - IFRS1, First-time Adoption of IFRS
  - IFRS2, Share-based Payment
  - IFRS3, Business Combination
  - IFRS4, Insurance Contracts,
  - IFRS5, Non-current Assets Held for Sale and Discontinued Operations
  - IFRS6, Exploration for and Evaluation of Mineral Resources
  - IFRS7, Financial Instruments: Disclosures
  - IFRS8, Operating Segments
  - IFRS9, Financial instruments
  - IFRS10, Consolidated Financial Statements
  - IFRS11, Joint Arrangements
  - IFRS12, Disclosure of Interests in Other Entities
  - IFRS13, Fair Value Measurement

INTERNATIONAL ACCOUNTING

- Implementation Guidance
- Complete list of final Interpretations (1997-2010)
  - IFRIC1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
  - IFRIC2, Member’s Shares in Co-operative Entities and Similar Instruments
  - IFRIC4, Determining Whether an Arrangement Contains a Lease
  - IFRIC5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
  - IFRIC6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
  - IFRIC7, Applying the Restatement Approach under IAS29
  - IFRIC9, Reassessment of Embedded Derivatives
  - IFRIC10 ... IFRIC20
INTERNATIONAL ACCOUNTING

• Complete list of final Interpretations (1997-2010)
  • SIC7, Introduction of the Euro
  • SIC10, Government Assistance – No Specific Relation to Operating Activities
  • SIC15, Operating Leases – Incentives
  • SIC25, Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
  • SIC27, Evaluating the Substance of Transactions in the Legal Form of a Lease
  • SIC29, Disclosure – Service Concession Arrangements
  • SIC31, Revenue – Barter Transactions Involving Advertising Services
  • SIC32, Intangible Assets – Website Costs

INTERNATIONAL ACCOUNTING

• US and international standardization of accounting
• US context as a notable exception to the global adoption of IFRSs
• In USA two main accounting actors

  • Securities and Exchange Commission (SEC) established in 1934
    • To the SEC was given the authority to develop accounting standards
  • Financial Accounting Standards Board (FASB) established in 1973
    • Activity of the accounting profession (AICPA) emerged with the issuing of the GAAPs FASB
    • FASB is a private sector standards setting body
    • FASB acts in the public interest
INTERNATIONAL ACCOUNTING

- FASB versus IASB
  - The US appeared very strong in its resolve not to adopt IFRSs believing that its “rules-based standards” were superior to the more “principle-based standards” of the IASB.
  - This approach was profoundly modified by the Enron bankruptcy in December 2001 and other accounting scandals erupted in 2002 and in 2007 (sub-prime banking crisis).
  - Convergence project between IASB and FASB (Norwalk agreement).

- IAS are more “principle-based” than “rule-based”
  - “Principle-based standards” focus on establishing general principles derived from an underlying conceptual framework, and reflect the recognition, measurement and reporting requirements for the transactions covered by the standards.
  - Due to their principle-based approach, the IFRS tend to have far fewer possible applications and numerical thresholds than the US standards.
INTERNATIONAL ACCOUNTING

• FASB versus IASB
  • Convergence project starting from the identification of a common “Conceptual Framework” (CF)
    • This project was paused in 2010 until the IASB concludes its ongoing deliberations about its future work plan
    • The project’s overall objective is to create a sound foundation for future accounting standards that are principles-based, internally consistent and internationally converged
    • This project, undertaken jointly by the IASB and the US FASB, was described in the MoU
      • On 28 September 2012 the IASB and the FASB announced the completion of the first phase of this joint project to develop an improved conceptual framework for IFRSs and GAAP

INTERNATIONAL ACCOUNTING

• Co-existence
  • In 2008 SEC has permitted to the foreign private issuers to compile their financial statements according to the IFRSs (without the need to provide a reconciliation to the US GAAP)
  • In US there are 2 types of financial statements
    • Foreign companies in accordance with IFRSs
    • US companies in accordance with US GAAP
INTERNATIONAL ACCOUNTING

- International accounting standardization determines standardization of accounting practice
  - Is this a realistic belief?
  - Is this a wishing outcome?
  - The adoption of IFRSs imply a certain degree of flexibility within options, requirements, and countries characteristics
  - There are a number of reasons why the standardization of accounting standards will not (and does not) necessarily lead to standardization in practice

INTERNATIONAL ACCOUNTING

- Reasons on surviving of “accounting diversity” after the introduction of IFRSs
  - Differences in taxation systems
  - Differences in economic and political influences on financial reporting
  - Modifications made to IFRSs at a national level
  - Differences in implementation, monitoring and enforcement
INTERNATIONAL ACCOUNTING

• Differences in accounting practices
  ● More than 100 Countries have adopted IFRS (starting from 2005)
  ● Before 2005 there was a large variety of accounting practices in correspondence with different accounting systems
    • Anglo-American model
    • European Model

INTERNATIONAL ACCOUNTING

• Differences in accounting practices
  ● **Anglo-American model**
    • a system of accounting that is strongly influenced by professional accounting bodies rather than government
    • emphasis on the importance of capital markets
    • reference to terms such as true and fair view, substance over forms
  
  ● **European (continental) model**
    • relatively small input from the accounting profession
    • the information tends to be of a nature to protect the interest of creditors (rather than the investors per se)
INTERNATIONAL ACCOUNTING

• Differences in accounting practices
  • Many reasons were identified to explain the difference in accounting methods of different countries
    • Law of the countries
    • The political systems
    • The level of economic development
  • Nobes, Reasons proposed for international accounting differences
    • Nature of business ownership and financing system; Colonial inheritance; Invasions; Taxation; Inflation; Level of education; Age and size of accountancy profession; Stage of economic development; Legal systems; Culture; History; Geography; Language; Influence of theory; Political systems, social climate; Religion; Accidents

• Culture is a broad concept that would expect to impact on legal systems, tax systems, the way of business are formed and financed, etc.
• Accounting is a socio-technical activity that involves interaction between both human and non-human resources
• Theoretical contribution to explain this linkage
  • Hofstede and his four societal value dimensions (Individualism versus Collectivism; Large versus Small power distance; Strong versus weak uncertainty avoidance; Masculinity versus Femininity)
  • Gray four accounting values (Professionalism versus Statutory control; Uniformity versus Flexibility; Conservatism versus Optimism; Secrecy versus Transparency)
INTERNATIONAL ACCOUNTING

• Differences in accounting practices
  • **Religion** transcends national boundaries; can have a major impact on accounting system chosen; Can potentially affect how people do business and how they make decisions
  • **Legal systems** can be divided into two broad categories
    • Common Law (few prescriptive statutory laws dealing with many area of life; the body of law is developed by judges applying both the limited account of statutory and the outcomes of previous judicial decisions)
    • Roman Law (tends to be very detailed and covers many aspects of daily life)
  • The implication of this for accounting is that in common law countries we would expect to find few detailed laws guiding accounting practices and a major role played by the accounting profession

INTERNATIONAL ACCOUNTING

• Differences in accounting practices
  • **Business ownership and financing system**
    Can be divided into two groups
    • Outsiders systems (external shareholders are a significant source of finance for much business activity; large part of these shareholders are not involved in the detailed management of the company; due to this they need to receive set of financial information supporting their investment decisions)
    • Insiders systems (dominance of family owned businesses, and/or the dominant providers of long-term finance; the owners tend to have access to the detailed internal financial management accounting information of the business; it is not so obvious to provide information supporting investments decisions of shareholders)
INTERNATIONAL ACCOUNTING

- Differences in accounting practices
  - **Taxation systems**
  - **Strength of the accounting profession**
  - Are subsections of the institutional factor classifying outsiders/insider systems
  - **Accidents of history** caused by market failures happened in the past and requiring some deep changes in the legislation

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INTERNATIONAL ACCOUNTING

- Differences in accounting practices and IFRS
  - Differences based on cultural and institutional diversity *couldn’t* be eliminated

- Options
  - Continue with the IFRS adoption (and eventually following a dual approach between listed companies and non listed companies)
  - Exit strategy from the IFRS adoption