International Financial Reporting Standards

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Abstract

International Financial Reporting Standards collectively referred to as IFRSs, issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the world. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Financial Accounting Standards Board (FASB) of USA and IASB are working towards the convergence of the US GAAPs and the IFRSs. India being an important emerging economy in the world, is yet to adopt or converge with IFRSs. The aim of this paper is to understand how IFRSs are set, list of IFRSs, and Indian vision for convergence with IFRSs.

Key words: International Financial Reporting Standards, International Accounting Standards Board, Small and Medium Enterprises, Indian Accounting Standards, The Institute of Chartered Accountants of India.

Introduction

The IFRS Foundation

The IFRS Foundation is an independent, not-for-profit private sector organisation working in the public interest.

Its principal objectives are:

- to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;
- to promote the use and rigorous application of those standards;
- to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and
- to bring about convergence of national accounting standards and IFRSs to high quality solutions.

Its supporting objectives are:

- the creation of an XBRL taxonomy for IFRSs and the IFRS for SMEs to facilitate the electronic use, exchange and comparability of financial data prepared in accordance with IFRSs. This is done by the IFRS XBRL team.
- the production of high quality, understandable and up to date material including freely downloadable training material for the IFRS for SMEs, and the organisation of conferences and workshops about IFRSs. These activities are grouped within the IFRS Foundation Education Initiative.
- the protection of the IFRS brand and the support of global convergence through addressing translation and copyright issues and contributing to the financing of the organisation through the provision of publication services. These activities are grouped under Content Management.
- operations, including the day-to-day management of and support for the organisation.

The IASB

The International Accounting Standards Board (IASB) is the independent standard-setting body of the IFRS Foundation. Its members (currently 15 full-time members) are responsible for the development and publication of IFRSs, including the IFRS for SMEs and for approving Interpretations of IFRSs as developed by the IFRS Interpretations Committee (formerly called the IFRIC). All meetings of the IASB are held in public and webcast. In fulfilling its standard-setting duties the IASB follows a thorough, open and transparent due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component. The IASB engages closely with stakeholders around the world,
including investors, analysts, regulators, business leaders, accounting standard-setters and the accountancy profession.

**The IFRS Interpretations Committee**

The IFRS Interpretations Committee (formerly called the IFRIC) is the interpretative body of the IASB. The Interpretations Committee comprises 14 voting members appointed by the Trustees and drawn from a variety of countries and professional backgrounds. The mandate of the Interpretations Committee is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance (IFRICs) on those issues. Interpretation Committee meetings are open to the public and webcast. In developing interpretations, the Interpretations Committee works closely with similar national committees and follows a transparent, thorough and open due process.

**The Governance and Accountability**

The IFRS Foundation and its independent standard-setting body, the IASB, provide public accountability through the transparency of their work, the consultation with the full range of interested parties in the standard-setting process, and their formal accountability links to the public. The leaders of the major economies, through the G20, have confirmed the importance of an independent standard-setter accountable to the public interest.

Public accountability, ensured by the organisation's constitution and governance arrangements, is vital to the organisation's success. It is the Trustees' duty to ensure that appropriate governance arrangements are in place and observed by all parts of the organisation (read more about the Trustees' responsibilities here). The cornerstones of the organisation's public accountability are:

**The Constitution Review**

The Constitution of the IFRS Foundation requires the Trustees to undertake a formal, public, five-yearly review of the Constitution.

**Due process**

A formal due process for the IASB, the IFRS Interpretations Committee and XBRL ensures extensive outreach, which includes mandatory public consultation. Comment letters received in response to formal proposals are made public on the website.

**Public meetings**

All meetings (other than meetings on administrative matters) of the bodies of the IFRS Foundation, including the IASB, the Interpretations Committee and its formal advisory bodies, are held in public and are webcast. Meeting notes are available to the public as observer notes.

The governance and oversight of the activities undertaken by the IFRS Foundation and its standard-setting body rests with its Trustees, who are also responsible for safeguarding the independence of the IASB and ensuring the financing of the organisation. The Trustees are publicly accountable to a Monitoring Board of public authorities. The Trustees' effectiveness in exercising their functions is assessed annually by the Trustees' Due Process Oversight Committee.

**How IFRSs are developed?**

International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "due process", which involves interested individuals and organisations from around the world. The due process comprises six stages, with the Trustees having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. After the standard is issued

**Stage 1: Setting the agenda**

The IASB, by developing high quality accounting standards, seeks to address a demand for better-quality information that is of value to all users of financial statements. Better-quality information will also be of value to preparers of financial statements. The IASB evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of investors. The IASB considers:

- the relevance to users of the information
- the reliability of information that could be provided
- whether existing guidance available
- the possibility of increasing convergence the quality of the standard to be developed
- resource constraints.

To help the IASB in considering its future agenda, its staff are asked to identify, review and raise issues that might warrant the IASB’s attention. New issues may also arise from a change in the IASB’s conceptual framework. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations. The IASB receives requests from constituents to interpret, review or amend existing publications. The staff consider all such requests, summarise major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda. The IASB’s discussions of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions the IASB consults the IFRS Advisory Council and accounting standard-setting bodies on proposed agenda items and setting priorities. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB’s approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

**Stage 2: Project planning**

When adding an item to its active agenda, the IASB also decides whether to: conduct the project alone, or jointly with another standard-setter. Similar due process is followed under both approaches. After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage.

A team is selected for the project by the two most senior members of the technical staff: The Director of Technical Activities and The Director of Research. The project manager draws up a project plan under the supervision of those Directors. The team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

**Stage 3: Developing and publishing the discussion paper**

Although a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state why.

Typically, a discussion paper includes: a comprehensive overview of the issue; possible approaches in addressing the issue; the preliminary views of its authors or the IASB; and an invitation to comment.

**Stage 4: Developing and publishing exposure draft**

Publication of an exposure draft is a mandatory step in due process. Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB’s main vehicle for consulting the public.

Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed standard (or amendment to an existing standard).

The development of an exposure draft begins with the IASB considering issues on the basis of staff research and recommendations; comments received on any discussion paper; and suggestions made by
the IFRS Advisory Council, working groups and accounting standard-setters, and arising from public education sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, the IASB publishes it.

Stage 5: Developing and publishing the standard

The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft. After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.

In considering the need for re-exposure, the IASB identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered; assesses the evidence that it has considered; evaluates whether it has sufficiently understood the issues and actively sought the views of constituents; considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions.

The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft.

When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS.

A pre-ballot draft is usually subject to external review, normally by the IFRIC. Shortly before the IASB ballots the standard, a near-final draft is posted on eIFRS.

Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favour of publication, the IFRS is issued.

Step 6 After the standard is issued

After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its proposals.

The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

After a suitable time, the IASB may consider initiating studies in the light of its review of the IFRS's application, changes in the financial reporting environment and regulatory requirements, and comments by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.

List of IFRSs

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 : Non-current Assets Held for Sale and Discontinued Operations
IFRS 6 : Exploration for and evaluation of Mineral Resource
IFRS 7 : Financial Instruments: Disclosures
IFRS 8 : Operating Segments
IFRS 9 : Financial Instruments
IFRS 10 : Consolidated Financial Statements
IFRS 11 : Joint Arrangements
IFRS 12 : Disclosure of Interests in Other Entities
IFRS 13 : Fair Value Measurement

IFRS Convergence in India

The ICAI, at its 259th meeting, held on May 2-4, 2006, expressed that the IFRSs may be adopted for listed and large entities. The Accounting Standards
Board (ASB), at its 127th meeting, held on August 11, 2006, considered and supported the ICAI's Councils view that there would be several advantages of converging with IFRSs. The ASB decided to constitute a Task Force to prepare the Concept Paper on Convergence with IFRS with the objective of exploring the approach for achieving convergence with IFRSs, and laying down a road map for achieving convergence with IFRSs with a view to make India IFRS-compliant.

The ICAI examined whether convergence with IFRSs can be achieved stage wise as below:

**Stage 1**: Convergence with IFRSs falling in Category I immediately. Category I includes IFRSs which do not involve any legal or regulatory issues nor have any issues with regard to suitability in the existing economic environment, preparedness of industry and any conceptual differences from the Indian Accounting Standards. This category has further been classified into two parts:

- **Category IA**: IFRSs which can be adopted immediately as these do not have any differences with the corresponding Indian Accounting Standards. They include:
  - IAS 11 – Construction Contracts
  - IAS 23 – Borrowing Costs

- **Category IB**: IFRSs which can be adopted in the near future as there are certain minor differences with the corresponding Indian Accounting Standards. They include:
  - IAS 2 – Inventories
  - IAS 7 – Cash Flow Statements
  - IAS 20 – Accounting for Government Grants
  - IAS 33 – Earnings Per Share
  - IAS 36 – Impairment of Assets
  - IAS 38 – Intangible Assets

**Stage 2**: Convergence with IFRSs classified in Category II and Category III after a certain period of time, say, 2 years after various stakeholders have achieved the level of technical preparedness and after conceptual differences are resolved with the IASB. They include:

- **Category II**: IFRSs which may require some time to reach a level of technical preparedness by the industry and professionals keeping in view the existing economic environment and other factors. They include:
  - IAS 18 – Revenue
  - IAS 21 – The Effects of Changes in Foreign Exchange Rates
  - IAS 26 – Accounting and Reporting by Retirement Benefit Plans
  - IAS 40 – Investment Property
  - IFRS 2 – Share-based Payment
  - IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

- **Category III**: IFRS which have conceptual differences with the Indian Accounting Standards. They include:
  - IAS 17 – Leases
  - IAS 19 – Employee Benefits
  - IAS 27 – Consolidated and Separate Financial Statements
  - IAS 28 – Investments in Associates
  - IAS 31 – Interests in Joint Ventures
  - IAS 12 – Income Taxes
  - IAS 24 – Related Party Disclosures
  - IAS 41 – Agriculture
  - IFRS 3 – Business Combinations
  - IFRS 6 – Exploration for and Evaluation of Mineral Resources
  - IFRS 8 – Operating Segments

**Stage 3**: Convergence with IFRSs classified in Category IV only after necessary amendments are made in the relevant laws and regulations. They include:

- **Category IV**: IFRSs, the adoption of which would require changes in laws/regulations. They include:
IAS 1: Presentation of Financial Statements
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10: Events After the Balance Sheet Date
IAS 16: Property, Plant and Equipment
IAS 32: Financial Instruments
IAS 34: Interim Financial Reporting

IFRS 1: First Time Adoption of IFRS
IFRS 4: Insurance Contracts
IFRS 7: Financial Instruments: Disclosures

Stage 4: Convergence with IFRSs classified in Category V by way of adoption on full Convergence. They include:

Category V: IFRSs corresponding to which no Indian Accounting Standard is required for the time being. They include:


Conclusions:

IFRSs are grammar in accounting. Adoption or convergence with IFRS would remove or reduce diversity in International Financial Reporting Practices and bring uniformity and comparability.

References: