



Place de la normalisation comptable dans une gouvernance mondialisée

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International Financial Reporting Standards

International Financial Reporting Standards (IFRSs)

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The views expressed in this presentation are those of the presenters, not necessarily those of the IASB or the IASC Foundation



Outline

- Why global standards?
- Structure and governance
- Teaching principle-based standards
- IASB's active agenda



The reality

- Capital markets are global
 - New York, London, Luxemburg, Hong Kong, Singapore
- World's economies are interdependent
 - the financial crisis
 - SMEs integrated into the global economy
- Accounting and auditing needs strengthening
 - World Bank ROSCs
 - corporate failures
 - standard setters work programmes
- High-quality information facilitates the allocation of global capital

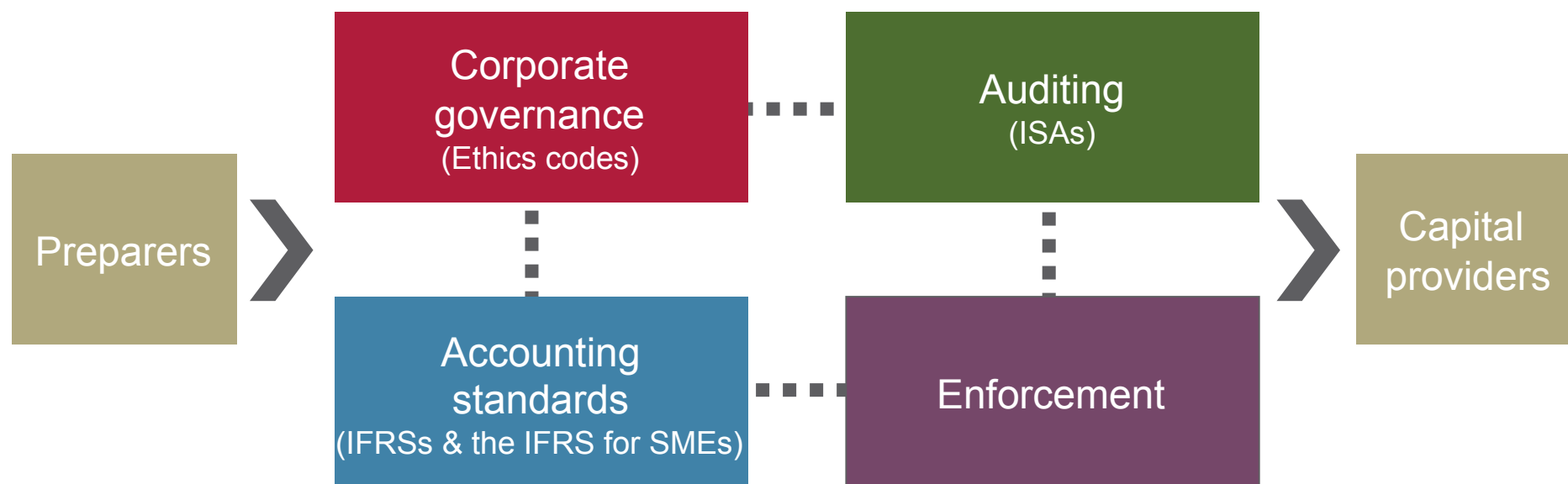


Benefits of global standards

- Efficient allocation of capital globally
 - attracting investment through transparency
 - reducing the cost of capital
 - increasing world-wide investment
- Reducing costs and increased efficiency
 - facilitates standardising information systems
 - eliminates wasteful reconciliations
 - audit efficiencies
 - education and training



Information supply chain

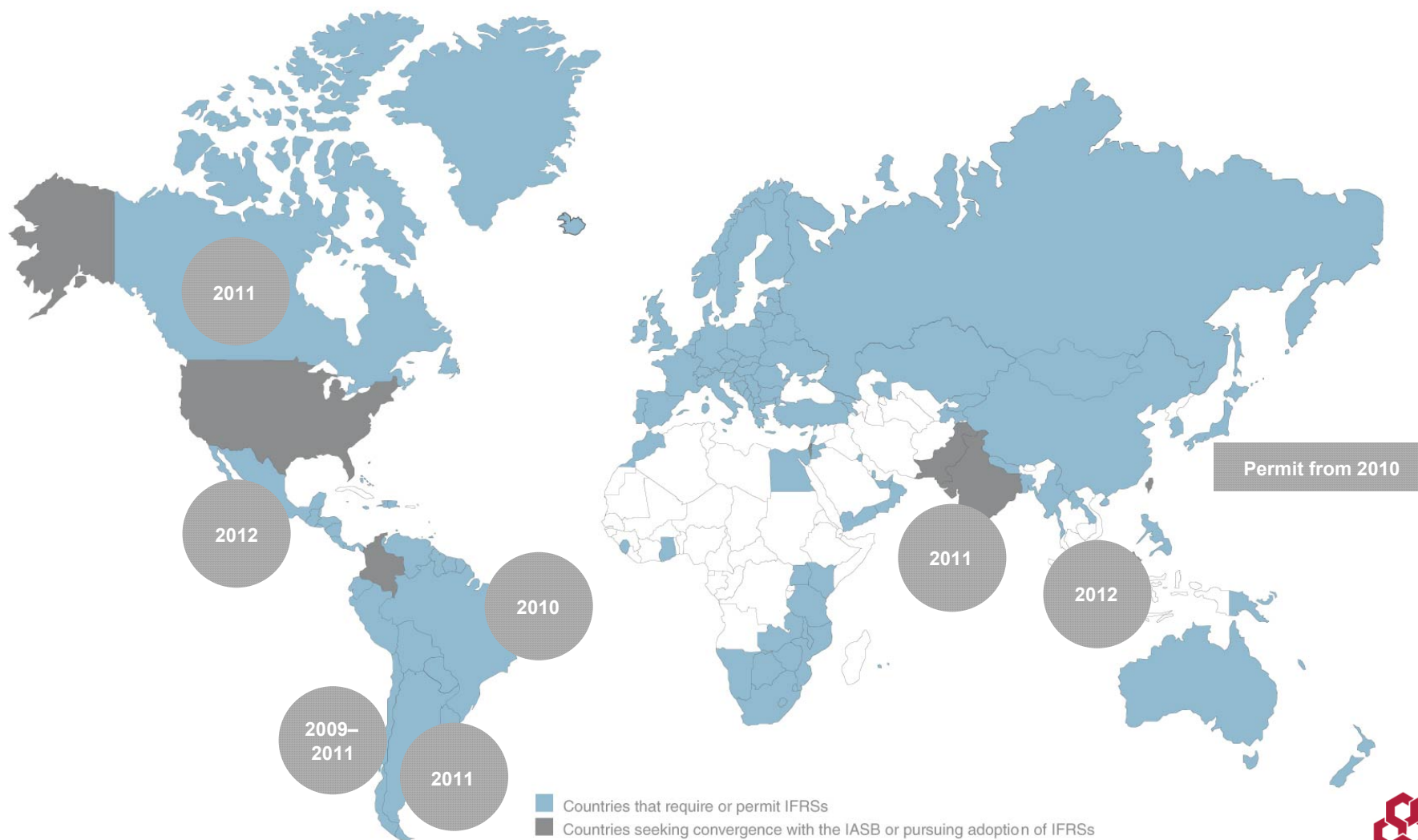


Fortune Global 500 (July 2009)

Fortune G500	Based on announced plans		
	2009	2013	Japan 2015?
Which GAAP?			
IFRSs and word-for-word IFRS equivalents	190 (or 38%)	245 (or 49%)	310 (or 62%)
US GAAP	140	140	140
National GAAPs	170	115	50
Total	500	500	500



The use of IFRSs (domestic listed)



Use of IFRSs (domestic listed)

For domestic listed entities	Number of jurisdictions
IFRSs required for all	89
IFRSs required for some	5
IFRSs permitted for all or some	23



Use of **full IFRSs** for unlisted entities

For domestic unlisted entities (SMEs)	Number of jurisdictions
IFRSs required for all	29
IFRSs required for some	23
IFRSs permitted for all or some	38



- Much support
 - welcoming press releases by World Bank, IFAC, AICPA, ICAEW, CAPA, FEE, SAICA, ACCA, etc
- Can SMEs simply choose to adopt it?
 - USA – yes
 - see AICPA code of ethics
 - European Union
 - member states can decide whether to permit or require
 - today there are ±55 different SME GAAPs in the EU
 - Others (depends on local law)
 - South Africa use ED & plan to adopt Standard in August



Why principle-based standards?

- Function well across the world's jurisdictions
 - accommodates different legal frameworks
- Reduces financial structuring opportunities
 - rules are the tools of a financial engineer
- Faithfully represents the underlying economic transactions and events
 - no bright lines to exploit
 - different entities record similar, but not necessarily identical, answers for identical transactions and events



Structure and governance

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...one single set of high
quality global standards..

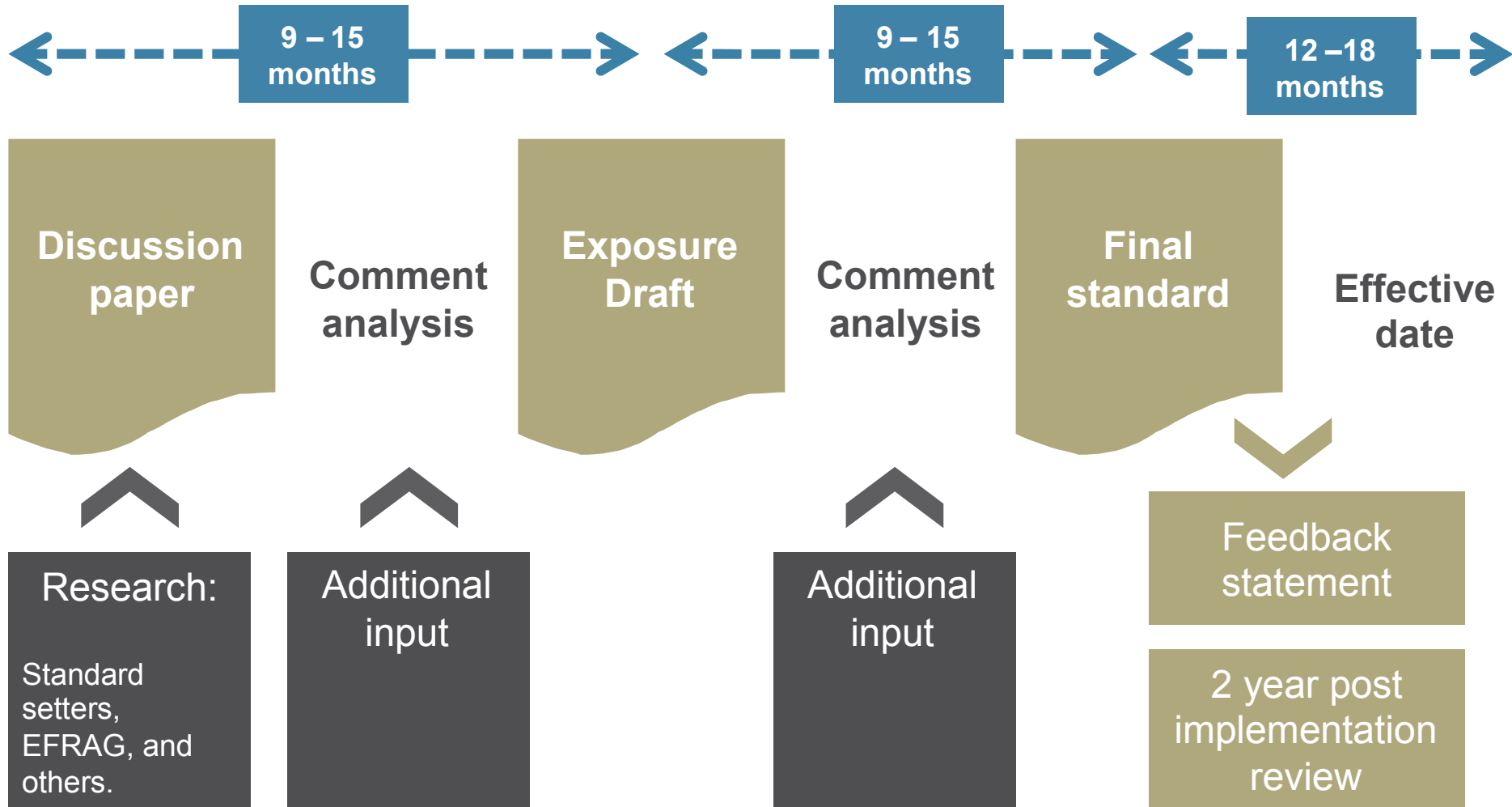
..used on the global
capital markets.



Structure of IASCF



Consultation process



Ideally, adopt IFRSs as the reporting framework:

- IFRSs as issued by the IASB in full
- Audit report and basis of presentation note refer to conformity with IFRSs
- Without local ‘endorsement’

Use of IFRSs means all standards and all interpretations

- Sometimes the ideal is hard to achieve

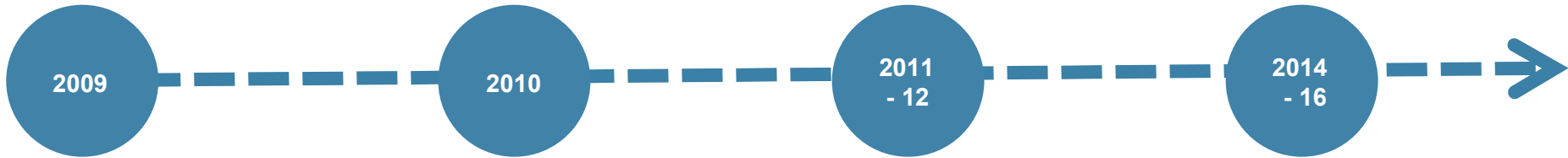


Problems with local ‘endorsement’:

- Urge to tinker
- Time delay
- Politicisation
- Cost
- What does audit report refer to?
- If not IFRSs, will users understand?
- If carve-out, what is the replacement standard?



Looking forward



Completion of MoU convergence work program
IFRS for Private Entities published
IASCF Monitoring body established

Beginning the transition in
USA on a voluntary basis

Several key jurisdictions
adopt IFRS
SEC decides way forward

Full transition
in the USA



MoU between FASB & IASB

- New joint standards where significant improvement required
- Remove selected differences in standards
- Align conceptual framework



Convergence and movement towards US adoption of IFRS

- November 2007, SEC eliminates reconciliation requirement for foreign filers (that use IFRS as issued by the IASB)
- Increased interest in US in IFRS
 - responses to SEC Concept Release on IFRS option
 - SEC Roundtable/FASB Forum/Conferences
 - mixed views on IFRS option, requests for date(s) certain, many (but not insurmountable) transition issues



- November 2008 – SEC proposes ‘roadmap’ to eventual adoption of IFRS in US
 - early adoption would be available to limited group of companies starting in 2009
 - decision in 2011 whether to move to mandatory adoption of IFRS in 2014/15/16 conditioned on progress on FASB/IASB MoU, IASB funding/infrastructure experience in US



The future

2009	IFRS in over 100 countries and US convergence programme
Near future	IFRSs in +150 countries and US convergence programme
Vision	A single set of high quality global accounting standards



Understanding principle-based standards

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So what will the future look like?



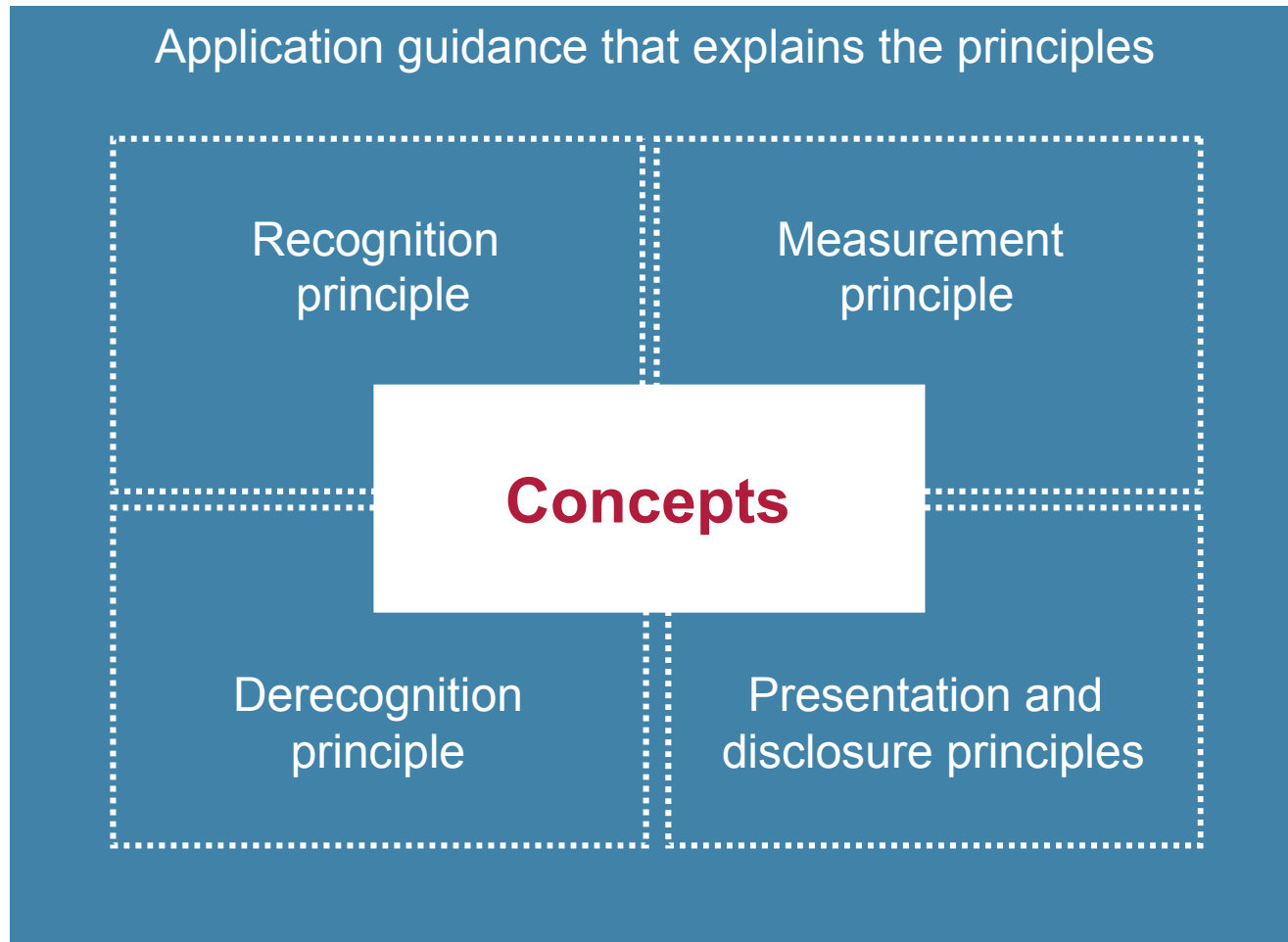
Principles



Rules



Ideal structure of a principle-based standard



The ideal principle-based standard

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- Scope
 - no exceptions
- Principles
 - derived from conceptual framework
 - reliance on professional judgement to apply principles in business context
- Application guidance
 - explains application of principles



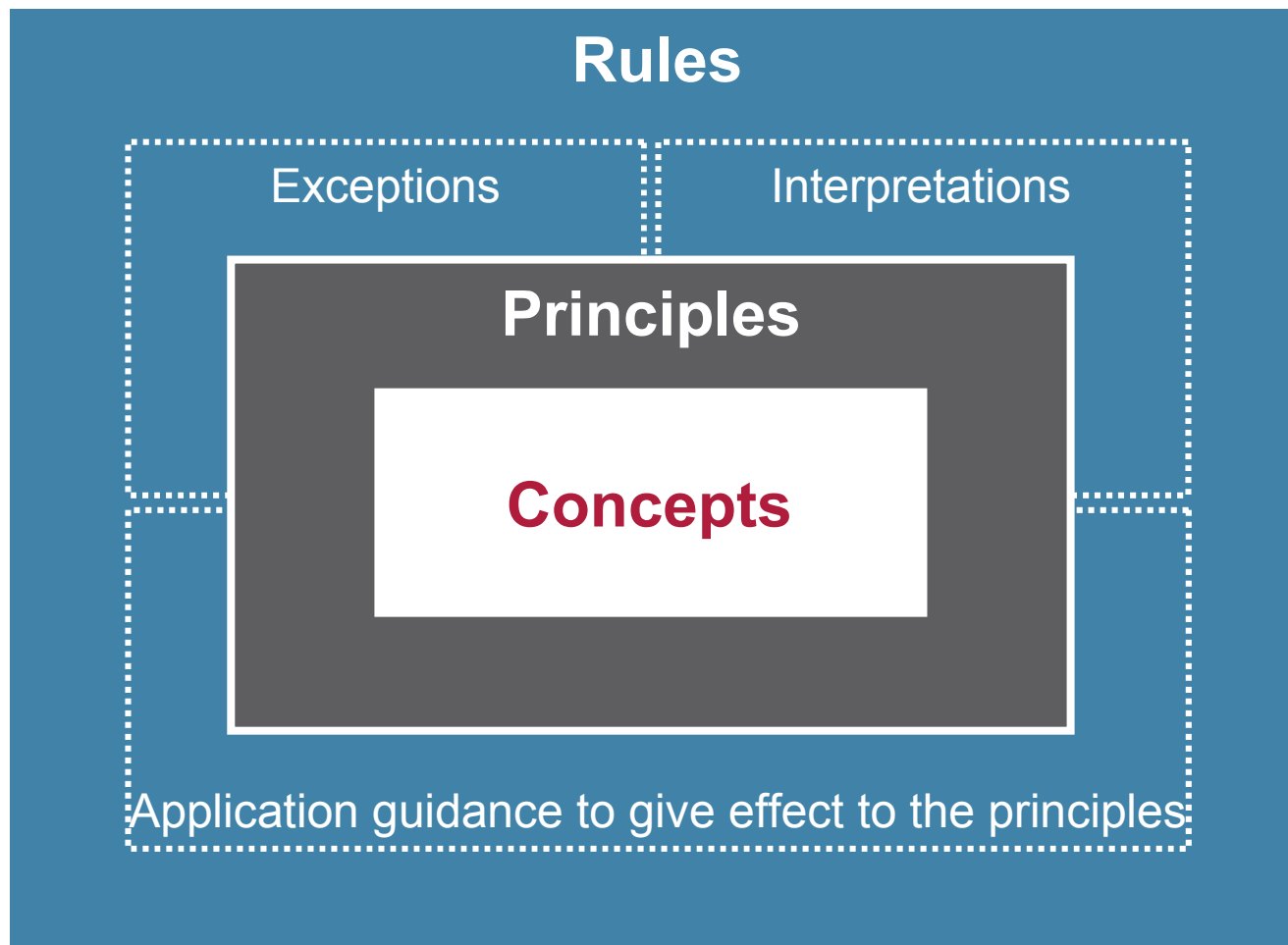
Get rule-based standards if

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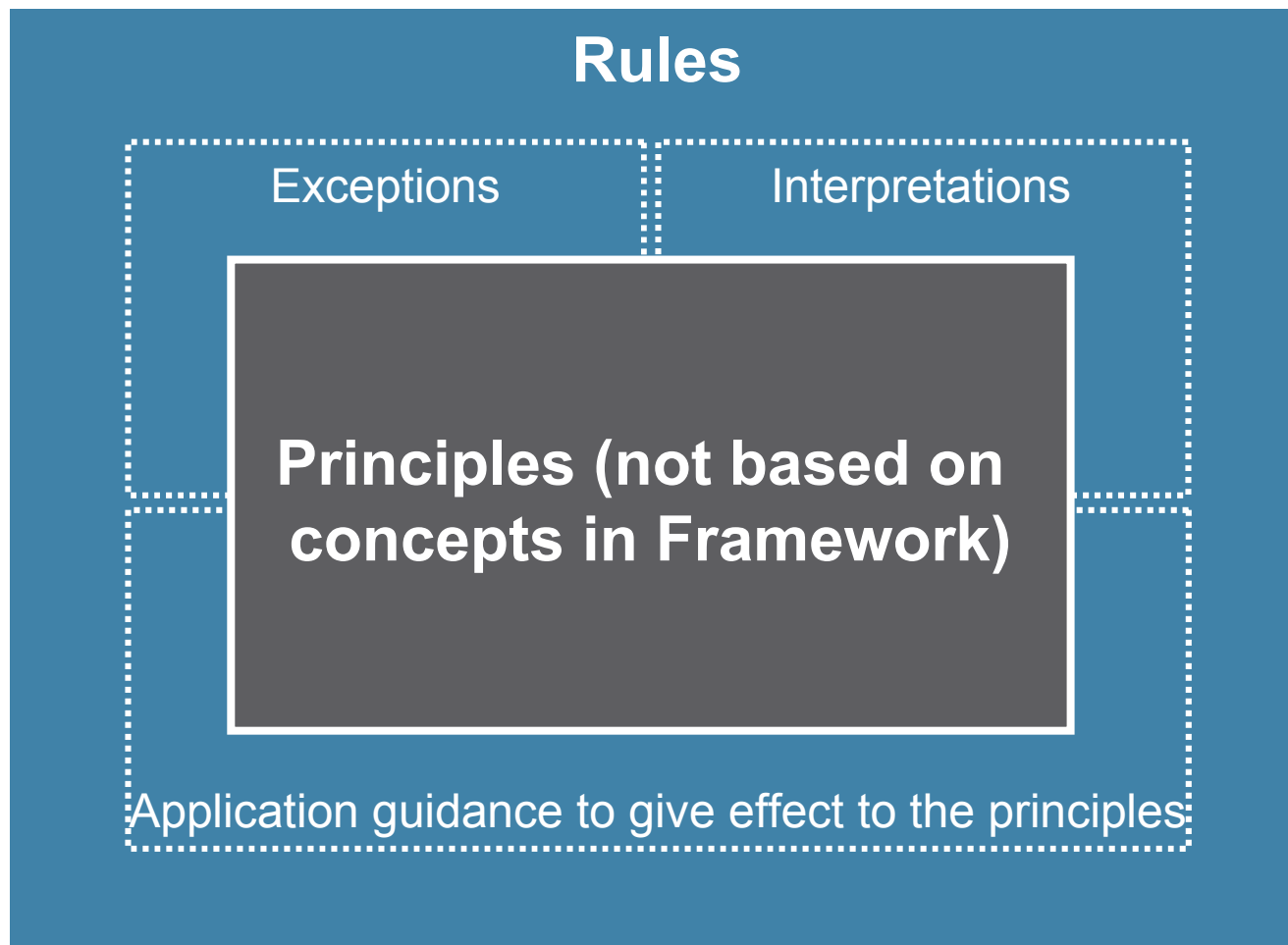
- Preparers and auditors
 - refuse to exercise professional judgement
 - don't act with integrity
 - ask for detailed interpretations
 - refuse to accept raw economic facts
- Regulators
 - want one answer in spite of different economic facts
- Courts
 - lawyers fail to defend reasonable judgements



Structure of *some* IFRSs



Structure of *other* IFRSs



Concepts that underlie IFRSs

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- Objectives of **general purpose financial statements**
- Qualitative characteristics
- Elements
- Recognition and measurement
- Presentation and disclosure

Teaching suggestions:

- Identify which concepts are robust (and which are not)
- Relate the requirements back to the robust concepts in FW
- Explain reasons when requirements inconsistent with FW
- Debunk myths, eg myth: Framework = IFRS constitution



Objective of IFRS financial statements

- to provide information about the:
 - financial position
 - performance; and
 - changes in financial position
- of an entity that is useful to ... in making capital allocation decisions.



Teaching suggestions:

- Contrast objective of IFRS financial statements with other objectives of financial statements
- Debunk myths
 - Myth 1: objective = record of historical costs
 - Myth 2: objective = support tax return
 - Myth 3: financial statements are designed to meet all the needs of all users



Current framework

- understandability
- relevance
 - materiality
- reliability
 - faithful representation
 - substance over form
 - neutrality (prudence)
 - completeness
- comparability

Proposed framework

- fundamental QCs
 - relevance
 - faithful representation
 - complete
 - neutrality
 - free from material error
- enhancing QCs
 - comparability
 - verifiability
 - timeliness
 - understandability



Myth 1: Reliability = precise

- Debunk:
 - reliability = faithful representation, substance over form, neutrality, completeness... (FW.31–38)

Myth 2: Matching = QC or underlying assumption

- Debunk:
 - underlying assumptions = going concern and accrual basis (FW.22 and 23)
 - accrual basis = recognise elements when they satisfy definition and recognition criteria (IAS 1.28)
 - other elements defined with reference to assets and liabilities (FW.49 and 70)



Current framework

- Asset
 - resource controlled by the entity
 - result of past event
 - expected inflow of economic benefits
- Liability
 - present obligation
 - arising from past event
 - expected outflow of economic benefits

Framework project

- Asset
 - a present
 - economic resource
 - to which the entity has a right or other access that others do not have
- Liability
 - a present
 - economic obligation
 - for which the entity is the obligor



Current framework

- $\text{Equity} = \text{Assets} - \text{Liabilities}$ (ie a residual)
- $\text{Income and expenses} = \text{changes in assets and liabilities}$...

Teaching suggestions:

- asset is the cornerstone of element
- defining income and expenses with reference to assets & liabilities = robust framework for measuring performance



Myth 1: IFRSs has two measurement bases—cost and fair value

- Debunk:
 - IFRSs contains many different measurements
 - Framework is poor on measurement
 - it lists a number of measurement techniques (rather than measurement bases)
 - it does not explain when each measurement should be applied
 - is not very helpful (on measurement) therefore a joint project with the FASB to rewrite the measurement part of the Framework



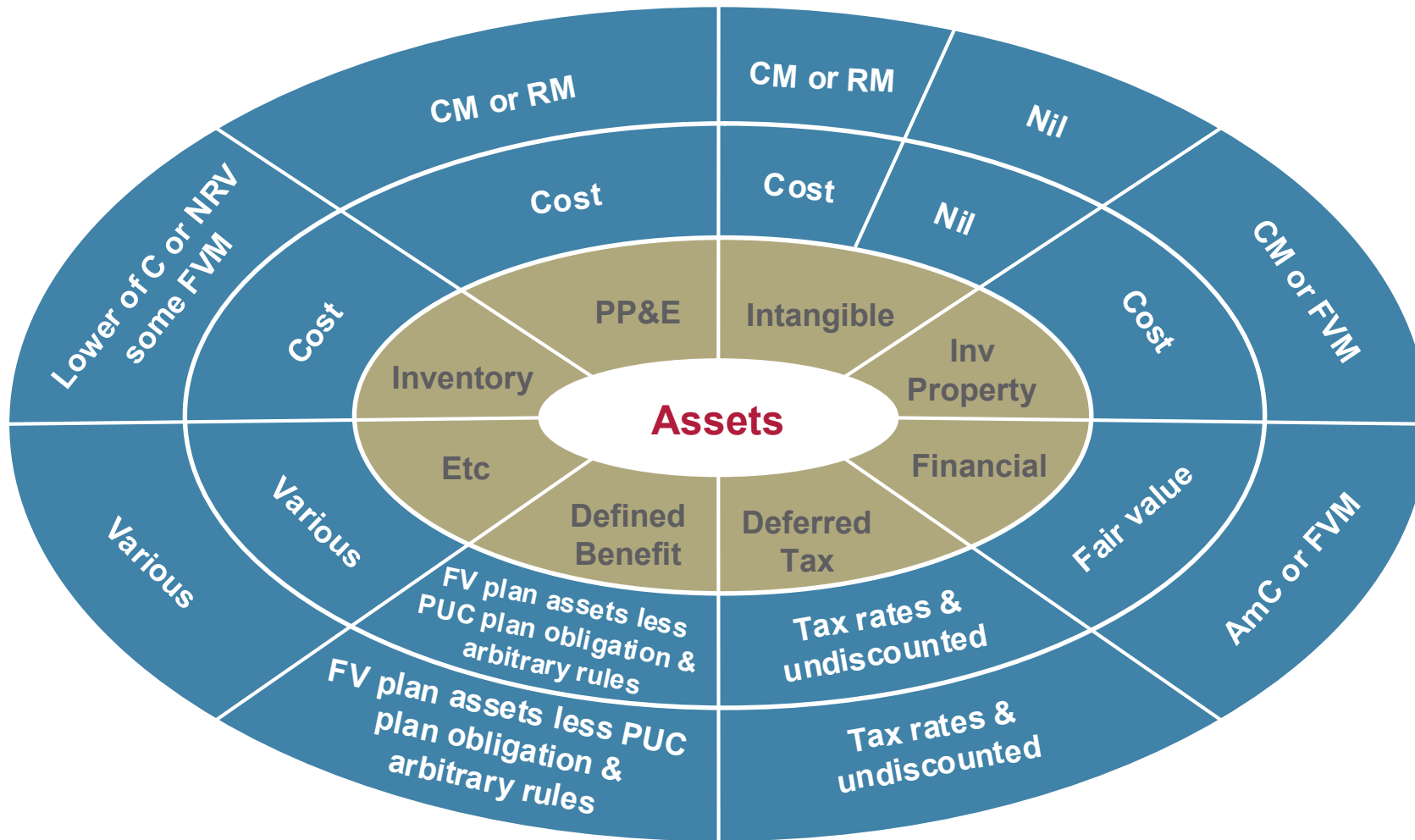
Myth 2: Counterintuitive that worsening in own credit rating results in decreased liabilities

- Debunk:
 - basic finance: greater default risk increases the discount rate that the market would apply to the entity's debt
 - overall probable that market capitalisation and value of net assets declines:
 - recorded assets may require impairment
 - unrecorded decline in value of unrecorded net assets



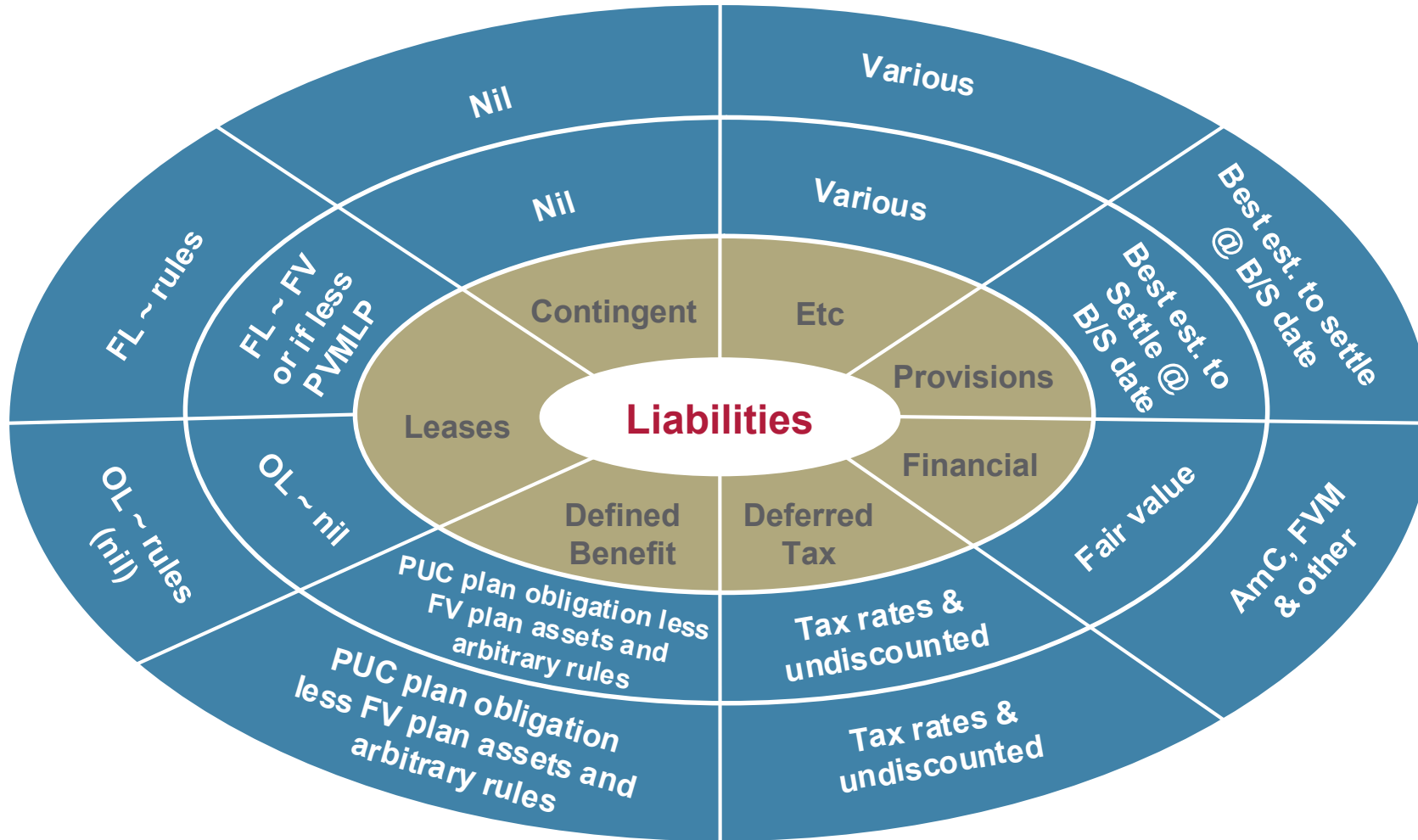
Asset

Classification, recognition and measurement

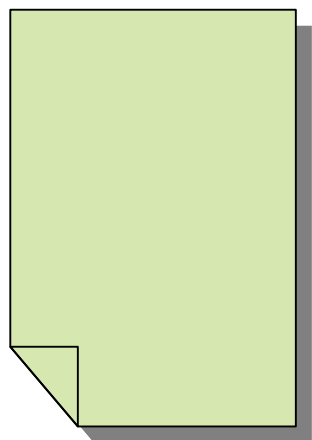


Liability

Classification, recognition and measurement



From concepts to principles to rules



Concepts



Principles



Rules



Teaching suggestions

- build from concepts to principles
- explain
 - need for judgement in applying principles
 - how application guidance gives effect to principles
 - how other rules create exceptions and other departures from the principles
 - how interpretations can create more rules
- test understanding, eg use integrated case studies



Example 1

Correcting material prior period error

- Objective
- Concepts
 - faithful representation
 - comparability
- Principle
 - **retrospective restatement**, ie restate financial statements in order that present financial information as if error had not occurred
- Rules
 - impracticable exception
 - specified disclosures



Example 1: Correcting material prior period error continued

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Teaching suggestions

- build from objective through concepts to principle and rules
 - eg principle results in faithful representation & comparability
- explain use of judgement in applying principle
 - eg materiality
- explain reasons for exception
 - impracticability
- test understanding, integrated case study



Example 2: Change in accounting policy

- Objective
- Concepts
- Principle – retrospective application
- Rules
 - transitional provisions
 - impracticable exception
 - specified disclosures



Example 2: Change in accounting policy continued

Teaching suggestions:

- build from objective through concepts to principle and rules
- reasons for transitional provisions and impracticable exceptions
- explain how specified disclosures give effect to principle
- focus on judgements,
eg differentiating certain changes in accounting policies from changes in accounting estimates
- test understanding, eg use an integrated case study



Example 3: Change in accounting estimate

- Objective
- Concepts
- Principle – prospective application
- Rules
 - specified disclosures



Example 3: Change in accounting estimate continued

Teaching suggestions:

- build from objective through concepts to principle and rules
- explain how specified disclosures give effect to principle
- focus on judgements, eg differentiating certain changes in accounting estimates from changes in accounting policies and the correction of prior period errors
- test understanding, eg use an integrated case study



Example 4: Events after the reporting period

- Objective
- Concepts
- Principles
 - adjusting, if condition existed at end of reporting period
 - non-adjusting, if condition did not exist at end...
- Rules
 - eg specified disclosures



Example 4: Events after the reporting period continued

Teaching suggestions:

- build from objective through concepts to principle and rules
- explain how specified disclosures give effect to principles
- focus on judgements, eg material?
- test understanding, eg use an integrated case study



Example 5: Lease classification

- Objective
- Concepts
- General rule (not a principle)
 - capitalise in-substance purchases (finance leases)
 - other leases = executory contracts (operating leases)
- Rules
 - guidance, eg contingent rentals
 - specified disclosures



Example 5: Lease classification continued

Teaching suggestions:

- explain general rule is weak/inconsistent with the framework
- discuss what a better classification principle could be, eg see *DP Leases*
- focus on judgements, eg classification operating or finance lease
- test understanding, eg use an integrated case study



Example 6: Business combinations

- Objective
- Concepts
- Core principle
 - an acquirer of a business
 - recognises the assets acquired and liabilities assumed
 - at their acquisition-date fair values
 - discloses information that enables users to evaluate the nature and financial effects of the acquisition



Example 6: Business combinations continued

- Rules
 - exceptions to the recognition principle
 - exceptions to the measurement principle
 - specified disclosures



Example 6: Business combinations continued

Teaching suggestions:

- build from objective through concepts to principle and rules
- recognition—explain reason for removing
 - (i) the probability criterion; and
 - (ii) the explicit reliability of measurement criteria (see Basis for Conclusions on IFRS 3 paragraphs BC125–BC130)
- explain reasons for exceptions to IFRS 3:
 - recognition principle
 - measurement principle (see Basis for Conclusions on IFRS 3)



Example 6: Business combinations continued

Teaching suggestions:

Focus on judgements, eg

- identifying a business, measuring fair value in the absence of an active market etc

Test understanding, eg:

- integrated case studies
- discuss with reference to the QCs whether uncertainty should enter recognition or measurement (for business combinations and then extend the discussion to other transactions and elements)



- Where IFRS is based on the Framework
 - build from objective through concepts to principles
 - explain how ‘good’ rules give effect to the principle
 - provide reasons for ‘bad’ rules
 - exceptions and interpretations
- Where IFRS is not based on the Framework
 - provide reasons why standard-setter deviated from the Framework (see Basis for Conclusions in each IFRS)
 - remember some IASs predate the Framework
 - do not pretend that everything is consistent with the Framework



- Teach your students to make judgements
 - discuss areas of judgement in each IFRS
 - use real IFRS financial statements
 - significant judgements in applying accounting policies are disclosed (see IAS 1 paragraph 122)
 - major sources of estimation uncertainty are disclosed (see IAS 1 paragraph 125)
 - discuss the adequacy of the disclosures, ie how well entities prepare these and other disclosures about judgements



Understanding IFRSs (3)

- Use case studies to test understanding
 - In addition to traditional sources, consider
 - published regulatory decisions
 - observer notes supporting IFRIC agenda decisions
 - press articles in conjunction with IFRS financial statements, eg
 - Société Générale, fair presentation & compliance with IFRSs
 - Northern Rock, financial risk disclosures



IASB's active agenda

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Questions or comments?

Expressions of individual views by members of the IASB and their staff are encouraged. The views expressed in this presentation are those of the presenters. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

