

Segment: Financial Reporting

Topic: Regulatory Framework

Regulatory Framework

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Introduction

The accounting standard setting process tends to vary significantly across countries.

In some countries, such as France, accounting standards are set by the government. Accounting principles and procedures for financial reporting purposes in these countries will often be identical to those required for tax reporting purposes (any differences are generally very minor).

In other countries, such as the US, the process of setting accounting standards is delegated to a private standard setting body. Accounting principles and procedures for financial reporting purposes in these countries tend to be different from those for tax reporting purposes.

Regardless of whom sets the standards, the accounting profession (e.g., accounting associations and accounting societies) tend to influence the process greatly.



Learning Objectives

At the end of this topic, you will be able to:

- identify the reasons for a global accounting standard
- describe the role of the International Accounting Standards Board (IASB).

1. Harmonisation

Globalisation, cross-border security listings and the rise of the multinational company, among other reasons, have resulted in an international push toward harmonising financial reporting across countries. Furthermore, economic and financial crises as well as corporate collapses around the globe show the need for reliable and transparent accounting and financial reporting. For example, the recent Asian financial crisis showed that investors lacked confidence in the accounting systems in those countries and highlighted the need for the adoption of a set of global accounting standards.

In September 1998, Arthur Levitt, the Chairman of the US Security and Exchange Commission at the time stated that:

"The significance of transparent, timely and reliable financial statements and its importance to investor protection has never been more apparent. The current financial situations in Asia and Russia are stark examples of this new reality. These markets are learning a painful lesson taught many times before: investors panic as a result of unexpected or unquantifiable bad news."

International Accounting Standards Board (IASB)

The process of harmonisation of accounting standards involves the reduction of cross-country accounting diversity as much as possible and makes financial information more comparable internationally.

Origin

In 1973, professional accounting organisations from nine countries established the International Accounting Standards Committee (IASC). In 2001, the International Accounting Standards Committee was replaced with the International Accounting Standards Board (IASB). IASB is an independent, privately funded accounting standard setter that aims to develop a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. Toward this aim, the board cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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IFRS

IASB publishes its standards in a series of pronouncements called International Financial Reporting Standards (IFRS). It has also adopted the standards issued by the IASC. Those standards continue to be designated "International Accounting Standards" (IAS). Standards published between the years 1973 and 2001 are known as IAS, while IFRS standards have been published from 2001 onwards.

Harmonisation



The IASB (along with the IASC) has already issued many accounting standards that deal with a variety of key financial reporting topics. A number of countries have committed to it and are working to harmonise their accounting standards with those of the IASB. Most of the countries have already endorsed International Accounting Standards as their own, either without amendment or with minor additions or deletions.

2. Summary

Here is a quick recap of what we have learnt so far:

- The IASB aims to make financial information comparable around the world.
- The IASB is an independent, privately funded accounting standard setter that co-operates with national accounting standard setters.