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Interpretation and
Application of

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Includes summary
of key provisions of
US GAAP
vs. **IFRS[®]**

Standards

2022

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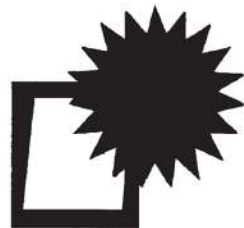
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1

INTRODUCTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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INTRODUCTION

The mission of the IFRS Foundation and the International Accounting Standards Board (IASB) is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. They seek to serve the

public interest by fostering trust, growth and long-term stability in the global economy.

The driver for the convergence of historically dissimilar financial reporting standards has been mainly to facilitate the free flow of capital so that, for example, investors in the US would become more willing to finance business in, say, China or the Czech Republic. Access to financial statements which are written in the same “language” would help to eliminate a major impediment to investor confidence, sometimes referred to as “accounting risk,” which adds to the more tangible risks of making such cross-border investments. Additionally, permission to list a company's equity or debt securities on an exchange has generally been conditional on making filings with national regulatory authorities. These regulators tend to insist either on conformity with local Generally Accepted Accounting Practice (GAAP) or on a formal reconciliation to local GAAP. These procedures are tedious and time-consuming, and the human resources and technical knowledge to carry them out are not always widely available, leading many would-be registrants to forgo the opportunity of broadening their investor bases and potentially lowering their costs of capital.

There were once scores of unique sets of financial reporting standards among the more developed nations (“national GAAP”). The year 2005 saw the beginning of a new era in the global conduct of business, and the fulfilment of a 30-year effort to create the financial reporting rules for a worldwide capital market. During that year's financial reporting cycle, the 27 European Union (EU) member states plus many other countries, including Australia, New Zealand and South Africa, adopted IFRS.

This easing of US registration requirements for foreign companies seeking to enjoy the benefits of listing their

equity or debt securities in the US led understandably to a call by domestic companies to permit them also to choose freely between financial reporting under US GAAP and IFRS. By late 2008 the SEC appeared to have begun the process of acceptance, first for the largest companies in those industries having (worldwide) the preponderance of IFRS adopters, and later for all publicly held companies. However, a new SEC chair took office in 2009, expressing a concern that the move to IFRS, if it were to occur, should perhaps take place more slowly than had previously been indicated.

It had been highly probable that non-publicly held US entities would have remained restricted to US GAAP for the foreseeable future. However, the American Institute of Certified Public Accountants (AICPA), which oversees the private-sector auditing profession's standards in the US, amended its rules in 2008 to fully recognise IASB as an accounting standard-setting body (giving it equal status with the Financial Accounting Standards Board (FASB)), meaning that auditors and other service providers in the US could now issue opinions (or provide other levels of assurance, as specified under pertinent guidelines). This change, coupled with the promulgation by IASB of a long-sought standard providing simplified financial reporting rules for privately held entities (described later in this chapter), might be seen as increasing the likelihood that a more broadly-based move to IFRS will occur in the US over the coming years.

The historic 2002 Norwalk Agreement—embodied in a Memorandum of Understanding (MoU) between the US standard setter, FASB, and the IASB—called for “convergence” of the respective sets of standards, and indeed since that time, a number of revisions of either US GAAP or IFRS have already taken place to implement this commitment.

Despite this commitment by the Boards, certain projects such as financial instruments (impairment and hedge accounting), revenue recognition, leases and insurance contracts were deferred due to their complexity and the difficulty in reaching consensus views. The converged standard on revenue recognition, IFRS 15, was finally published in May 2014, although both Boards subsequently deferred its effective date to annual periods beginning on or after January 1, 2018. The standard on leasing, IFRS 16, was published in January 2016, bringing to completion the work of the Boards on the MoU projects. Details of these and other projects of the standard setters are included in a separate section in each relevant chapter of this book.

Despite the progress towards convergence described above, the SEC dealt a blow to hopes of future alignment in its strategic plan published in February 2014. The document states that the SEC “will consider, among other things, whether a single set of high-quality global accounting standards is achievable,” which is a significant reduction in its previously expressed commitment to a single set of global standards. This leaves IFRS and US GAAP as the two comprehensive financial reporting frameworks in the world, with IFRS gaining more and more momentum.

The completed MoU with FASB (and with other international organisations and jurisdictional authorities) has been replaced by a MoU with the Accounting Standards Advisory Forum (ASAF). The ASAF is an advisory group to the IASB, which was set up in 2013. It consists of national standard setters and regional bodies with an interest in financial reporting. Its objective is to provide an advisory forum where members can constructively contribute towards the achievement of the IASB's goal of developing globally accepted high-quality accounting