

Benefits of Adopting IFRSs Outweigh Transitional Cost: IASB Chairman

In an exclusive interview, the International Accounting Standards Board Chairman Sir David Tweedie shares with ICAI President and Editor-in-Chief CA. T.N. Manoharan his views and mission on a range of issues including implementation of International Financial Reporting Standards (IFRSs), convergence with IFRSs, education initiative by IASC Foundation and the need for broader geographical distribution on the IASB. The following is the full text of the interview.

Q. Many countries, including all 25 members of the European Union and Australia, have adopted International Financial Reporting Standards (IFRSs) from 2005. Is IASB aware of the problems faced by these countries in the implementation of IFRSs? If yes, what is the nature of these problems and how have these problems been addressed?

A. Our reports concerning the adoption of IFRSs have been largely positive. We are not aware of any real difficulties encountered by companies and their auditors and a recent PricewaterhouseCoopers study indicates that investors, a primary user of accounting standards, are benefiting from the additional information, comparability and transparency provided by IFRS. The relative smoothness of the implementation process, I believe, is down to the significant time and resources dedicated by all those concerned with IFRS adoption. The IASB itself has also reinforced our resources dedicated to interpretations and implementation issues.

Q. IASB has convergence projects with China and Japan and through these convergence projects, the IASB is helping these countries to converge with IFRSs. What kind of help is being provided by the IASB to these countries for convergence with IFRSs? Are there any lessons, which other countries can learn from this endeavour?

A. Convergence with China, Japan and Korea is a leading priority for the IASB. While there are

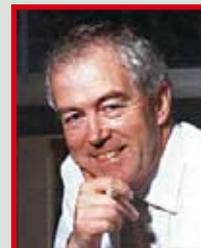
similarities among all three countries in terms of convergence with IFRS, our approach differs based upon the situation of each country. We have worked closely with the Chinese Accounting Standards Committee and the Chinese Ministry of Finance in order to ensure convergence at a very high level was achieved when China adopted their new accounting standards. With Japan, we are coordinating with the Accounting Standards Board of Japan on a convergence programme. Finally, Korea is currently considering a proposal, which would lead to the full adoption of IFRSs in publicly traded companies.

Q. Do you feel that there is a need to have a national standards-setting body in a country that has adopted IFRSs? If yes, what role do you perceive for that body in the national context and vis-à-vis the IASB?

A. Yes, I strongly believe that after adoption of IFRSs, there is a need for a national standard setting body. National standard setters are uniquely positioned to inform us of views within a particular country and provide an invaluable resource for research. Without national standard setters the IASB could become an ivory tower.

Q. In countries like India, legal and regulatory framework is the major challenge in convergence with the IFRSs. The ICAI, being the standard setting body in India, on its own is trying its best to persuade the government to change the law so that IFRSs can be adopted. However, amendments in law often take their own course and, in certain cases, a long period of time. In

Sir David Tweedie, 61, who was reappointed as Chairman of the International Accounting Standards Board (IASB) for a five-year term after his term ended last December, is regarded as the pioneer of global accounting reforms who has brought the dream of convergence of international accounting standards on the verge of reality. Often dubbed as the most powerful accountant on the planet, the former accounting professor of Britain is known to have brought accounting revolution through reforms, which had earned him his Knighthood.



these circumstances, what kind of help can be provided by the IASB to such countries for convergence with IFRSs?

A. In my travel to the many countries interested in IFRSs, I found that many claim legal and regulatory frameworks as an impediment to full IFRS adoption. The problem is that the IASB cannot account for differences in national law and tax structures. What I can say is that many countries, including all of those of the European Union, have found ways to overcome these legal and regulatory hurdles because the benefits of adopting IFRSs outweigh the transitional cost. All of these efforts take time and require consultation and I would fully encourage India to push forward on the necessary legal and regulatory changes.

Q. **There is a general feeling that in the convergence project with the Financial Accounting Standards Board (FASB), the extent of changes in IFRSs is far more than the changes made by the FASB in its Statements of Financial Accounting Standards (SFASs). What are your comments on this issue?**

A. I don't believe that is a fair reflection of the changes undertaken by the FASB and the IASB on convergence. Both Boards have made significant changes to their existing standards. Our February 2006 Memorandum of Understanding requires each Board to consider six areas for short-term convergence (two of them are shared). On longer-term projects, we are working together and therefore both standards will change. At the same time, it is not particularly useful to keep score. Standard setting is not a zero sum game. We are trying to reach the best conclusion, regardless of its origin.

Q. **It is felt that the IASB is making frequent amendments to IFRSs, e.g. in the past one year, the IASB has proposed amendments to as many as 9 IFRSs. The industry and the others concerned may not be able to cope up with such frequent changes in IFRSs. Is the IASB doing something in this regard?**

A. The IASB recognises the need for stability for those adopting IFRSs. In the past, amendments have been made to address practical implementation concerns raised by those adopting IFRSs. That being said, to provide stability and to enable countries that have yet to adopt IFRSs to catch up, the IASB agreed that we would not require any major new standards adopted from now on to be effective before 2009. We also decided that we would give at least one year between publication of the new standard and their effective date. This should address many of the



Sir David Tweedie addressing professionals while CA. T.N. Manoharan looks on.

concerns expressed by industry and others.

Q. **There is a feeling that IFRSs are becoming more and more theoretical. It is felt that while formulating an IFRS, the practical considerations are of secondary importance. Are steps being taken by the IASB in this regard?**

A. While the world is undoubtedly becoming more complex, we are endeavouring to ensure that our standards simply mirror that complexity rather than create it. With the FASB, we are intending to write principle-based standards. We hope that this more straightforward, simpler approach will both remove many of the concerns that people have had about too theoretical standards and, in particular, will reduce much of the complexity.

Q. **Proper implementation of IFRSs, particularly complex IFRSs such as IAS 39, IAS 19, IAS 36, etc., requires extensive training of preparers and auditors; and more educational material needs to be brought out on such IFRSs. What steps are being taken by the IASB in this regard?**

A. The IASC Foundation, the oversight body for the IASB, has established an education initiative. The education initiative is developing materials to make the standards more accessible to preparers and auditors and to facilitate training worldwide. Over time, the IASC Foundation's education initiative should grow and better serve the needs of preparers of IFRSs. However, our organisation has limited resources and the accountancy profession throughout the world has a significant responsibility in this respect.

Q. **A number of issues arise in the application of IFRSs in specific cases. Apart from the IFRIC, which addresses the general interpretational issues, at the international level, a need is being felt to have a forum, which may address such specific application issues. Is the IASB tak-**

ing any steps in this regard? If yes, what are those steps?

A. The profession has to choose between principle-based standards, which require judgement, and a series of interpretations – each of which is a rule. My own view is that, for most situations, consultation with other professionals should be enough to come to a sensible answer within the principles. If a major issue arises then clearly IFRIC or the Board would have to intervene. We can't however, have principle-based standards with 200 interpretations attached to each one. If the standard has left a major issue untouched then clearly we can add paragraphs to the standard. If there is an ambiguity in the standard we should change the paragraph that is causing the problem. Interpretations should be as few as possible.

Q. Is the IASB planning to establish any forum at the international level to monitor implementation of IFRSs?

A. There are no specific plans in this regard. We do meet with representatives of the accountancy profession national standard setters and our own standard advisory council to get feedback on the implementation of IFRSs. Furthermore, regular meetings with the International Organization of Securities Commission (IOSCO) provide another useful mechanism in gathering information on IFRSs implementation.

Q. So far, micro entities have not been a focus area at the international level and till date, no work has been done by the IASB in this regard. In our view, there is a need to develop a much simplified accounting system for micro entities. Is the IASB planning to develop any separate IFRS for micro entities, separate from the SMEs project?

A. There are no plans to have an additional IFRS system for micro entities separate from the SME project in developing an SME standard. The IASB had a company of about 50 employees in mind when developing the SME proposal.

Q. Despite the fact that the IASB is a global standards-setting body, there is no mechanism for regional representation on the IASB. Members of the IASB who are selected purely on merit basis are primarily from developed countries, such as, USA, UK, Australia, etc. In this scenario, how does the IASB address the concerns of under-development? And developing economies, which have also adopted or are in the process of adopting IFRSs in formulation of IFRSs?

A. Geographical diversity is assured on the Trustees that provide the oversight for the IASB. The IASB is not bound by geographical requirements. I would expect over time that the Trustees would be in a position to appoint IASB members from the developing world, as interest in the IASB grows. While I have no vote in the selection process, I believe that we will have a broader geographical distribution on the IASB. Ultimately, the Trustees are searching for the best candidates.

Q. Do you think that there is need for the IASB to have regional offices in the various regions of the globe to perform functions such as collecting researched data from the region, monitoring compliance of IFRSs in that region, assist the countries in that region in compliance with IFRSs?

A. It is not impossible to envisage such a possibility in the future, but we have no plans. In fact, we see national standard-setters playing that role currently.

Q. Pursuant to its project on 'presentation of financial statements', the IASB proposes to change the title of 'balance sheet' to 'statement of financial position'. Does this change in the title imply that the balance sheet will acquire the character of a 'valuation statement' wherein all assets and liabilities would be valued at fair values?

A. The title "balance sheet" is somewhat old fashioned and was simply the list of balances remaining after the income statement had been produced. The Board's framework, which now dates back many years, restricted the elements on the balance sheet to assets, liabilities and equity. These are not simply the balances brought forward. Only assets and liabilities can be shown on a statement of financial position plus, of course, the resulting shareholders equity. The proposed change of name was simply to indicate that we weren't interested in showing items such as deferred losses on the statement of financial position but simply an item that met the definition of an asset, a liability or equity. The question of valuation is entirely separate. I would very much doubt whether all assets and liabilities will ever be shown at fair value. There is very little demand for the fair value of plant or machinery or of factories, or of short-term inventories. Cost-benefit considerations almost certainly will ensure that many items are shown at cost. Above all, there is no intention to try to value the reporting company and to present that valuation in the statement of financial position.