

# International Financial Reporting Standards (IFRSs)

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



# The Vision

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

...used on the global  
capital markets.



# Benefits of Global Standards

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- Fundamental to getting to a high-quality global reporting system
- Attracting investment through transparency
- Reducing the cost of capital
- Increasing world-wide investment
- Reducing costs



## Questions

### What does used mean:

- If application of the standards is not consistent, are the benefits illusory?
- If application is not consistent, is the cost of conversion in the USA worth it?



## Critical Factors

### Must in fact adopt and not adapt IFRS

- Some (most?) adapt not adopt
- Some such as Europe have not adopted but decide whether to adopt standard by standard



## Questions

**Do we agree on what is meant by a high-quality accounting standard?**

- AAA/FASB Research Conference
- My view



# High-Quality Accounting Standards

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1. Be consistent with an underlying conceptual framework
2. Avoid alternative accounting, explicit or implicit, because comparability and consistency enhance usefulness of information
3. Be unambiguous so that the standard is understandable by preparers and auditors who must apply the standard and by users who must deal with the information produced by application of the standard



## Does the IASB agree with my 3 attributes of high-quality?

1. “IFRSs are based on the *Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Framework* is to facilitate the consistent and logical formulation of IFRSs.”  
*(Preface to IFRSs, paragraph 8)*
2. The IASB’s objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, the IASB intends not to permit choices in accounting treatment.”  
*(Preface to IFRSs, paragraph 13)*



## Does the IASB agree with my 3 attributes of high-quality? (cont.)

3. Are “principles-based” standards unambiguous:
  - What do we mean by principles-based?
  - What do our constituents mean?
  - Does principle based allow implicit alternatives?

In my view what is often meant by principles-based contradicts any notion of comparability.



## Seems to have fundamental agreement

- Objective of financial reporting
- Qualitative characteristics of financial information

But do we agree on what is meant by comparability?



## Comparability

- “*Comparability* is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.”

(ED QC-16)

- “The essence of decision making is choosing between alternatives. Thus, information about an entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for some other period or some other point in time.”

(ED QC-17)



## Question about comparability

- Is historical cost comparable?
- Identical asset (which produces comparability?)
  - ✓ Account for it the same
  - ✓ Account for it as used
- A fundamental issue is whether a “business model approach” defies or enhances comparability



# Impediments to High-Quality Standards

## Conceptual Framework Issues

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- Definition of comparability
- Asset/liability definitions
- Definition of control
- “Unit of account”



## Asset/Liability definitions

- Where is the focus with respect to an asset:
  - Present right
  - Probable benefit (cash inflow)
- Where is the focus with respect to a liability:
  - Present obligation
  - Probable sacrifice (cash outflow)



## Question about control

- As used in asset definition
- As used in consolidation
- As used in revenue recognition
- As used in derecognition



## Questions about “unit of account”

- What does it mean?
- If one item is combined with another, must both items meet the asset/liability definitions?
- Do definitions mean anything with a notion of accounting for a “whole contract”?



## Questions about Framework

- Note I have said nothing about measurement attributes
- Measurement of assets is of course controversial
- Measurement of liabilities seems to be impossible
- Boards to date have not expended the resources to resolve the questions I have raised or many others with respect to the Framework



## Implications of Framework uncertainty

- Insurance accounting
- Derecognition
- Consolidation
- Revenue recognition
- Leases (particularly lessor issues)
- Liabilities and equity



## **Misunderstandings of Both IASB and FASB Frameworks**

### **Basic conclusion as to conceptual primary of assets and liabilities**

- Thought to be a balance sheet view
- Implies there could be an income statement view
- Implies the basic conclusion resolves measurement which must be at fair value



## Framework is essential:

1. To resolve accounting debates in a consistent manner
2. To defend accounting standard-setting process as in fact neutral
3. To achieve “principles-based standards”
4. To maintain continuity in the standards and avoid changes based on whims
5. Alternatives suggested just won't work:
  - Consensus
  - Compromise
  - Consequences

