

International Standard Setting for Financial Reporting and the Role of National Standard Setters

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Agenda

- Convergence
 - National and IFRS
 - IASB/FASB [and Japan]
- Conceptual framework
- National standard setters in an IFRS world
- IFRS and smaller companies

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Why converge?

- Comparability
- Reduced compliance costs, including abolition of reconciliation (for larger companies)
- Different standards do not make sense

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How to converge (nationally)

- 'Big bang'
 - but standards constantly changing
- Phased approach
 - but how long?
 - And how to phase?
- Convergence means same words, same meaning
 - are any changes justifiable or necessary?

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Convergence: IASB/FASB

- Product to date:
 - Share based payment
 - Discontinued operations
 - Financial instruments (most of)
 - Business combinations (Phase I)
- Coming soon
 - Business combinations (Phase II)
 - Fair value
 - Segments
 - Tax
 - Borrowing costs
 - Grants
 - Comprehensive income
 - Revenue recognition

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IASB/FASB convergence

- Both bodies devoting significant resource
- IASB standards notably influenced by US style and level of detail
- More evidence of US influence on IASB than vice versa
- Must we try and influence both bodies and not just the IASB?

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Conceptual framework

- Fundamental importance
- Fresh work is overdue
- Frameworks are incomplete:
 - Measurement
 - Presentation

Convergence!

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Conceptual framework: two camps

Objective of financial statements	Make buy/sell/hold decisions Future cash flows	Assist decisions by portraying financial performance and position
Perspective of financial statements	Forward looking	Historic
Primary qualitative characteristic	Relevance	Reliability
Markets	Perfect	Imperfect
Measurement basis'	'Fair value'	Cost (but not <u>nec</u> historical)
Comprehensive income	Meaningful	Not meaningful
Transactions	Not very important	Important

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Conceptual framework

- This is a summary and a caricature
- No-one knows all the right answers
- Debate tends to be polarised—thoughtful people will do better!

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Conceptual framework : Particular Matters

- Objectives
- Users
- Qualitative Characteristics
- Due Process
- User Needs in Different Types of Entities
- Standard Setters/Preparers

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National standard setters in an IFRS world

- Communication
 - With constituents
 - With IASB and FASB
 - With other standard setters (and EFRAG)
- Interpretations
- Thought leadership
- 'Domestic issues' (including smaller companies and public benefit sector)

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National standard setters : Working Together

- NSS
- WSS
- Europe

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IFRS and smaller companies

- IFRS focus needs of investors in large, listed companies—especially international companies
- Costs of preparation may be too great for smaller companies
- User needs may be different
- IASB SME project still at an early stage—few specific proposals
- Can smaller companies wait?
- May have a major effect on national convergence



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