ACCOUNTANTS FOR BUSINESS

The future of national accounting standard setters

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ABOUT ACCOUNTANTS FOR BUSINESS

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This paper sets out ACCA's general position on the future of national accounting standards setters in the context of the spread of global standards.

It discusses a number of possible roles for them in the future, and considers the relevance of each of these roles based on a survey of nine countries that have adopted IFRS to some extent.

Background

During the past 10 years, there has been a tendency for global accounting standards to be developed in preference to national standards. International Financial Reporting Standards (IFRS) are now either permitted or required for domestic listed companies in some 122 jurisdictions, and permitted for unlisted companies in 10 others. In 2009, the International Accounting Standards Board (IASB) published the IFRS for small and medium-sized enterprises (SMEs), specifically designed for use by unlisted companies; this has extended the potential application of IFRS, whereas the application of national Generally Accepted Accounting Principles (GAAPs) has been potentially diminished. The IASB has sampled 51 countries on their take-up of the IFRS for SMEs.

	Number of countries
Plan to require	20
Plan to permit	11
Undecided	9
No plans to require or permit	11

These developments clearly reinforce the questions about what sort of roles national standards setters (NSS) should fulfil once global standards have been adopted, especially in the 20 countries where there might be a requirement for IFRS both for listed and unlisted accounts. The 20 countries planning to require IFRS for SMEs include the UK and Ireland, South Africa, Hong Kong and Singapore.

There is clearly also a potential dividend from the advance of global standards, in that the costs of NSS might be reduced.

OBJECTIVES OF THIS PAPER

This paper sets out ACCA's general position on the future of NSS. It discusses a number of possible roles for NSS in the future, and considers the relevance of each of these roles. They include:

1. setting national standards for entities not applying either IFRS or IFRS for SMEs – these may be unlisted companies, small/micro enterprises, not-for-profit etc.

2. endorsing/approving IFRS for use in the country concerned

3. making amendments to IFRS where these have been adapted for use rather than adopted as issued by the IASB

4. providing implementation guidance or best practice statements on IFRS (either on national issues, or as applied to different sectors)

5. influencing the development of IFRS through comment letters, research projects for IASB, joint projects with other NSS and by stimulating debate in a country on any new IFRS.

SURVEY OF STANDARD SETTING

ACCA's position has been informed by a survey which it conducted to:

- obtain information about the NSS in different countries

- assess what sorts of roles the NSS in the various countries are expected to fulfil.

The countries in the survey are some of those which have either already adopted IFRS, or are engaged in a transition to the use of IFRS, and where there is a significant standard setter already established.

The survey was completed by ACCA staff in the nine following jurisdictions:

- Australia
- Canada
- China
- Hong Kong
- Malaysia
- Pakistan
- Singapore
- South Africa
- UK and Ireland.

The following sections look at the results of the survey and ACCA's position in relation to each of the potential roles of the NSS noted above. It also compares how the operations of NSS in each of the countries are organised.

1. Standard setting

SURVEY RESULTS

All the countries in the survey still set national standards to some degree.

- Australia has made its main standards identical to IFRS, but where necessary makes limited amendments for public sector/not-for-profit entities. It is developing a version for unlisted companies using full IFRS for the accounting, but allowing reduced disclosures.
- Canada will adopt IFRS for listed companies from 2011, but is developing separate standards for privately held companies and for not-for-profit entities.
- China's standards converged with IFRS to a large degree in 2006. It has no separate accounting standards for either unlisted companies or SMEs.
- Hong Kong's principal standards are now identical to IFRS, but it maintains a separate standard for SMEs.
- Malaysia has used IFRS as the basis of most of its standards, but is working to complete this process by 2012. It has a separate system for privately held companies (based on the Malaysian standards applied before the full convergence programme with IFRS began).
- Pakistan has adopted most IFRS as its standards for listed and large companies, but has developed separate standards for SMEs.
- Singapore has used IFRS as the basis of most of its standards, but is working to complete the process by 2012.
- South Africa has adopted both IFRS and IFRS for SMEs as its standards, though it is also developing a third-tier standard.
- The UK and Ireland uses IFRS for listed companies and currently maintains a separate set of UK standards for all others, including the Financial Reporting Standard for Smaller Entities (FRSSE) for small entities.

Clearly, the most significant group for which national standards have been developed are unlisted privately held companies or SMEs. Of the above countries, Hong Kong, Malaysia, Pakistan, Singapore, South Africa and the UK and Ireland either are looking at applying IFRS for SMEs or already are applying it.

ACCA'S POSITION

Standard setting is clearly the legitimate role of NSS. National standards enjoy the advantages of:

- familiarity
- reflecting national issues, law and the economy, and thereby also excluding standards on matters that are irrelevant, or are of only rare application
- closer relationship to the system of taxation.

However there is a variety of reasons why a country should use global standards in preference to national ones, including:

- greater comparability of financial reporting with other countries
- greater comparability within that country (for example, between listed companies using IFRS and other companies)
- the often higher quality of financial reporting than is apparent under national GAAPs
- better understanding of accounts by users
- a single framework means reduced complexity for preparers, users and auditors
- easier education and training of accountants.

All of this means that, in the longer term, the use of national standards should decrease. These factors are most relevant to listed companies, but are still significant for privately held unlisted companies. Proportionate requirements for small or micro businesses should be a particular concern for standard setters.

ACCA supports the take-up of global standards and would like to see full adoption of IFRS, including IFRS for SMEs, used as the basis for reporting by unlisted companies.

2. Endorsing IFRS

SURVEY RESULTS

All the NSS in the survey need to endorse the IFRS to give them legal backing, except for the UK. In this case endorsement is at EU level under the auspices of the European Financial Reporting Advisory Group (EFRAG). The EU has managed so far to endorse IFRS in such a way that compliance with IFRS as issued by the IASB has been possible at all times, although this has not included all the early-adoption possibilities.

In a number of cases, such as Australia, South Africa and Hong Kong, complete and prompt endorsement has been given, so that their national standards are identical to IFRS. Nonetheless, in some countries, either in the past or currently, endorsement has been more of an issue where differences have developed between their national standards and IFRS – for example China, Malaysia, Singapore and Pakistan.

ACCA'S POSITION

There will generally be the need for endorsement as part of the legal basis for IFRS. NSS should ensure that this process is complete and timely, so that companies can claim compliance with IFRS as issued by the IASB.

3. Amending IFRS

SURVEY RESULTS

As noted above there have been a number of countries where, to a greater or lesser extent, differences have developed between national standards and IFRS. These have arisen either because of the belated adoption or non-adoption of certain standards, or because standards were amended before adoption. Countries in this category have included China, Pakistan, Singapore and Malaysia. In most of these cases there is now a programme for full adoption of IFRS.

For the other NSS, generally they have already adopted IFRS intact as issued by IASB. It appears that most of the countries identified in section 1 above intend to adopt the IFRS for SMEs intact.

ACCA'S POSITION

Amending IFRS could be seen as a way of gaining the advantages of national standards while retaining those of global standards. Nonetheless, experience has shown that in the process of amendment many of the gains of global standards are often compromised or lost. Amendments to IFRS should not be made unless this is unavoidable, and the needs for making the burden of reporting reasonable for small entities is particularly important in this context. It is noted that in many countries no changes have been necessary. Any changes made should be kept to the minimum consistent with providing a proportionate regime for smaller companies and different sectors, and for incorporating the standards into the country's legal system.

4. Implementation guidance and best practice

SURVEY RESULTS

As noted above many NSS continue to set some national standards and issue interpretations and guidance for these. In most cases (for example the UK, Malaysia and Singapore) where the standards are based on IFRS, interpretations are either identical to, or closely modelled on, those of the International Financial Reporting Interpretations Committee (IFRIC). In South Africa and Hong Kong, guidance is provided only about the local implementation of IFRS. China has issued guidance and interpretation for its national standards, but there is now little emphasis on this and more on developing the IASB standards.

ACCA'S POSITION

In many countries there has been pressure on the local NSS to issue interpretations and guidance on how the IFRS are to be understood and applied, reflecting specific national circumstances (eg, language, law, ways of doing business, particular sectors). NSS are often used to doing this for their national GAAP. However, NSS should refrain from interpreting IFRS as much as possible. Any such interpretation or extra application guidance from the NSS will inevitably carry authority, and the principle of global standards is that only the global standard setter should interpret them.

5. Influencing the development of IFRS and stimulating debate

SURVEY RESULTS

All NSS in the survey reported that they were active in the area of IFRS development. All provide comment letters to the IASB on a regular basis and liaise with the IASB in other ways, for example through the IFRS Advisory Council or other advisory groups. Some mentioned round tables with constituents, either to stimulate debate, or to inform the response of the NSS to the IASB. Several NSS are members of regional groupings of NSS, for example EFRAG or the Asian-Oceanian Standard-Setters Group (AOSSG). Three of the countries surveyed are involved in a joint research project on extractive activities with the IASB (Canada, Australia and South Africa).

Input by NSS into the IASB's due process varies between jurisdictions. This is illustrated at the end of this paper by a breakdown of the number of comment letters on five major recent consultations, sent to the IASB from the various countries covered by the survey. The picture is very clear. In three countries (UK, Australia and Canada) the letter from the NSS was one among a good number from other parties. In the other countries the NSS was either the only letter received by IASB, or one of very few.

ACCA'S POSITION

Countries rightly consider it important that they 'have a voice' in the development of the standards, but this role should not necessarily be carried out by the NSS itself. Where there is adequate input from other bodies, such as audit firms, companies, and trade associations, the NSS need not take up this role. Where there is a lack of other input, however, it is right for the NSS to fulfil this role.

6. Operations of the national standard setters

SURVEY RESULTS

The table below summarises the main findings in terms of how the NSS are organised in each of the nine countries in the survey.

Country	NSS	Source of funding	Resources – staff	Resources – budget	Membership appointed by
Australia	Australian Accounting Standards Board (AASB)	96% provided by the government	Data unavailable	£2.8m	Chairman appointed by government; other members by oversight body.
Canada	Accounting Standards Board (AcSB)	Institute of Chartered Accountants (CICA)	13	£2.6m	Appointed by oversight body.
China	Accounting Standards Committee of Ministry of Finance (MoF)	Government	Paid full-time members; numbers of other staff unavailable	Unavailable	Appointments by MoF
Hong Kong	Financial Reporting Standards Committee of HK Institute of Certified Public Accountants	Institute of Certified Public Accountants (HKICPA)	Not available separately from rest of HKICPA	Not available separately	HKICPA Council
Malaysia	Malaysian Accounting Standards Board (MASB)	Government funded	14	Unavailable	Appointed by government
Pakistan	Institute of Chartered Accountants (ICPAK)	ICPAK	Well staffed	Unavailable	ICPAK Council
Singapore	Accounting Standards Council (ASC)	Government	8	Unavailable	Appointed by government
South Africa	Accounting Practices Board (APB), but in future Financial Reporting Standards Council (FRSC)	Currently funded mainly by Institute of Chartered Accountants (SAICA). Will be moving to government funding	Unavailable	Unavailable	Currently by SAICA and others. Will be by government.
UK and Ireland	Accounting Standards Board (ASB)	Companies (54%), accountancy profession (37%) and government (9%)	13 staff	£2.7m	Max 11 members appointed by oversight body

In all the countries surveyed the NSS comprises a body of experts.

In terms of funding, four NSS are provided for by the national accountancy body and four are paid for by the government. In the UK the funding is from more diverse sources. In only three cases (Australia, Canada and the UK and Ireland) is the total cost of the NSS made available publicly. These three seem to be very similar in scale, each costing about £3m a year. There are two others (Malaysia and Singapore) where the staff numbers would indicate that they are very similar in scale. The implicit total of up to £15m for these five compares with the £16.5m of funding contributions needed in 2009 for the IASB to set global standards. By way of comparison, EFRAG is not an NSS, but restricts itself to endorsement activities for the whole of the EU (see section 2 above) and to proactive work on the standards (see section 5). Until 2008, EFRAG managed its work on funding of £1.5m a year, but is now planning for a budget of £5.2m from 2010.

In most cases the appointment of members to the NSS is undertaken by the parties who provide the funding, except in Australia and Canada where there are separate oversight bodies.

In those jurisdictions where the professional accountancy body sets the standards they may well be involved with other activities such as monitoring compliance or setting audit standards.

ACCA'S POSITION

Costs of national standard setters

There is a noticeable lack of information on the costs of NSS. However, based on what data there is, and on other indications, the costs of NSS (and other comparable bodies such as EFRAG) are probably significant when compared with the costs of the IASB.

The development and take up of IFRS as global standards does not seen yet to have translated into cost reductions for NSS.

While current levels of costs allow the NSS to fulfil a number of roles that the IASB does not, there is scope for reconsidering and reducing these.

Reassessment of the roles of national standard setters

A number of the countries surveyed are reconsidering the roles of their NSS. In South Africa, there will be a new NSS as a result of new company law. In March 2011, Canada's AcSB expects to issue a new strategic plan, following the migration of its listed companies to IFRS. In Singapore, there are government plans for the city to develop as a significant accounting hub in the region, which has already affected accounting standard setting.

Major convergence programmes with IFRS will be completed shortly in a number of other countries – Malaysia and Singapore in 2012, and in the UK with IFRS for SMEs during 2011. In China, a formal roadmap for convergence is expected to be published in 2010.

Pakistan, Australia and Hong Kong seem to envisage no particular change in the roles of their NSS.

Where there has been significant adoption of IFRS, the roles of NSS should be reconsidered. This is especially true when major convergence programmes are completed.

Appendix:
Summary of recent responses to IASB from the survey countries

	Revenue recognition (with FASB)	Leases (with FASB)	Financial instruments	Fair value measurement	Management commentary
Australia					
AASB	1	1	1	1	1
Others	13	14	17	15	5
Canada					
AcSB	1	1	1	1	-
Others	5	15	12	6	6
Global*	1	1	1	3	1
China					
MoF	-	1	1	1	-
Others	-	-	3	2	-
Hong Kong					
HKICPA	1	1	1	1	1
Others	-	4	1	-	-
Malaysia					
MASB	1	1	1	1	1
Others	-	-	-	-	-
Pakistan					
ICPAK	1	1	1	1	1
Others	-	-	-	-	-
Singapore					
ASC	1	1	1	1	1
Others	-	-	-	-	-
South Africa					
SAICA	1	1	1	1	1
Others	4	1	2	-	-
UK and Ireland					
ASB	1	1	1	1	1
Others	26	55	28	18	16
Global*	10	8	12	13	8
Ireland	3	2	2	3	2
Total responses received by IASB from all countries	**224**	**302**	**245**	**160**	**100**

* ‘Global’ means responses from global bodies based in the country concerned.

TECH-AFB-NSS

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