1 STANDARD SETTING

Just as the Financial Accounting Standards Board (FASB) creates and maintains US GAAP Codification, the International Accounting Standards Board (IASB) does the same for International Financial Reporting Standards (IFRS™). Both are overseen by a group of trustees. The FASB reports to the Financial Accounting Foundation. The IASB is accountable in the first instance to the International Accounting Standards Committee (IASC). Both have interpretive bodies. The FASB has the Emerging Issues Task Force (EITF) in addition to many nonauthoritative bodies such as the American Institute of Certified Public Accountants (AICPA). The IASB/IASC have the International Financial Reporting Interpretations Committee (IFRIC).

Where the standard-setting apparatus diverges is with the role of the Securities and Exchange Commission (SEC) with regard to US GAAP. The SEC delegates its day-to-day rule-making authority to the FASB. The SEC also can supersede US GAAP for public companies. Regulations S-X and S-K define the form and content of financial statement reports, as well as disclosures that are not required under the US GAAP Codification.

Since IFRS is not owned by any one country, the IASB is the top-level authoritative body for IFRS standards. In 2008, recognizing the potential shortcomings of not having a rule-making oversight body such as the SEC, the IASC formed the Monitoring Board (MB). The MB's role is to provide an extra layer of independence from political influence. The need to protect the IASB from the political winds was underscored when in 2008, David Tweedie, chairman of the IASB at the time, temporarily suspended parts of the IFRS statements regarding classification of the fair market value effects on financial instruments. This directive allowed companies to take the large losses from the 2008 global financial crisis out of net income and into comprehensive income. The public fallout was swift and severe. Critics of IFRS pointed to this as an example of the highly political nature of the IFRS standard-setting process as a result of the multinational mix of board members.

However, what these critics did not mention is that the US GAAP has for decades been shaped by corporate lobbying via the exposure draft process. The most egregious example is the number of years and slow evolution of the accounting for pension and postretirement benefits. It took 17 years for the US GAAP to require companies to reflect in their financial statements the full value of these liabilities. Early comments on the first statement brought laments of doom and gloom as companies would become insolvent overnight. This did not happen. The investor community regularly adjusts the financial statements they are analyzing for off-balance-sheet items. Analysis also typically adds future minimum lease payments that are disclosed for operating leases to the liabilities of an entity when assessing financial condition.

Both bodies employ rigorous process in forming standards. Both have position papers, exposure drafts, and specific instructions and the timing of transition from prior standards. In fact, the two bodies have been jointly developing standards since the 2002 Norwalk Agreement, which creates a roadmap to convergence. The broad outline of the plan is that the two boards converge standards where they have mutual interests. Its objective does not include the synchronization of every standard.

The Norwalk Agreement has been prolific. The two boards have produced many joint standards. However, despite these efforts, jointly issued statements, while substantially identical, still have persistent, if not pervasive, differences. Recent standards have included sections that detail the differences between the two statements.

The governance of the IASB also includes a constitution that establishes the overall objectives of IFRS, the integrity of the standard-setting process, funding of the board, and consultations that are required as part of the process. The constitution is reviewed every five years, and the most recent update was in 2009. The board takes a vote to decide which issues are on the standard-setting agenda. Conversely, the FASB chairman decides on issues to undertake after consultation.

INTERPRETATIONS

Both the IASB and FASB provide interpretations of their standards. The FASB, primarily via the EITF, issues many more interpretations than IFRS. The number since the founding of the FASB in 1972 easily reaches into the hundreds. These together with other bodies, including SEC FRM updates, FASB staff positions, and AICPA Statements of Position likely add at least 200. In contrast, IFRS has only 17 active interpretations and a few amendments. Some prior IFRS interpretations (perhaps a dozen) have been subsumed into updated or new standards. It should be noted, however, that when a standard is reconsidered, the IASB, as a matter of process, attempts to incorporate the interpretations (IFRICs) in the main standard. The number of interpretations is still orders of magnitudes less than US GAAP.

While the FASB ratifies interpretations and does reject considering matters, the IFRIC routinely rejects issuing interpretations. Instead, it issues a monthly update that summarizes the interpretations sought by the user community and usually points out paragraphs of existing standards that the board feels provides adequate guidance with which to account for the matters in question. This approach is indicative of the principle-based nature of IFRS. When the IFRIC identifies an issue where there is an obvious gap in guidance or strong possibility of divergence in practice, the matter is placed on the agenda. Additionally, each year the IASB sets an IFRS improvements agenda that is sourced from constituent requests. The improvements typically result in statement amendments.

STATEMENT NUMBERING

In 2008, the FASB released the US GAAP Codification. The Codification summarized and organized into topics the substance of all prior standards such as Statements on Financial Accounting Standards (SFAS), EITFs, AICPA Statements of Position, and standard updates. Updates to the Codification are announced and put into a temporary section of the Codification until they are inserted into the proper sections as they become effective. The topics are numbered as follows.

IFRS uses sequential numbers as the FASB did prior to the Codification. There are two "sets" of IFRS standards. The first begin with IAS which stands for International Accounting Standards. These statements originated before the IASB came into existence and standard setting fell completely on the IASC. In 2000, when the IASB was founded, subsequent statements began with IFRS (and still do).

Similar to the change management of the US GAAP Codification, when standards are changed, the statement retains its number and title, but has a date appended to it to distinguish between prior versions. This convention means that there still are, and will continue to be IASs in effect. However, when a standard is fundamentally rewritten, or a new subject matter is undertaken, the statement begins with IFRS (with the former IAS number standard retired).

Currently there are 29 IASs, 13 IFRSs, 16 IFRICs, and 11 SICs.