

International Accounting Standards Board (IASB)

Organization: International Accounting Standards Board (IASB)

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Description The International Accounting Standards Board is a private-sector body that aims to converge financial accounting standards — the rules that corporations must adhere to in the preparation of financial statements — around the world. Since its inception in 2001, the IASB has published more than forty International Financial Reporting Standards (IFRS) which, it is hoped, will one day become the globally accepted ones for financial accounting. Whereas the IASB's predecessor, the International Accounting Standards Committee (1973-2001), had limited success convincing governments to recognize international standards much less replace their national accounting rules with international standards, the IASB has been far more persuasive. To date, the IASB's standards have had the most impact in Europe. Since January 2005, all public companies domiciled in the European Union have been required by law to use IFRS to draw up their accounts. As well, more and more countries beyond Europe, including Australia and Russia, are choosing to replace their national accounting standards with IFRS. In 2002, the IASB and the American accounting standard-setter, the Financial Accounting Standards Board, agreed to eliminate the major outstanding differences between IFRS and US Generally Accepted Accounting Principles. This convergence project between the IASB and FASB is seen in the business world as quite important because when it is completed, non-American corporations that use IFRS could potentially find it much easier to gain access to the highly lucrative American capital market.

The IASB is emblematic of the dilemmas of private authority, an increasingly common feature of global governance. The Board is a private-sector organization which is staffed by professional accountants and auditors and is funded largely by the "Big Four" accounting firms. The absence of any public-sector oversight of the IASB in combination with the Board's close ties to the accounting industry has raised questions about whether the Board's current set-up is appropriate to its role as standard-setter for more than ninety countries. The European Commission (EC), in particular, has expressed unease about the IASB's distance from public authorities. In light of these concerns, the EC has sought out ways of embedding the work of the IASB in European Union processes. Yet despite lingering concerns that the Board's private-sector composition is a threat to the independence of its standards, most observers view IFRS themselves as rigorous, investor-oriented, and altogether consistent with the public good. This perception is encouraged by the IASB's organization which stringently insulates the work of the standard-setters from the Board's funding arm. Indeed, some see the IASB's considerable autonomy in

relation to nation-states as enhancing the independence of its standards since the work of national standard-setters — which tend to be closely overseen by organs of government — is not infrequently subject to self-interested interference from legislators. (The US FASB, for example, has consistently met with major congressional opposition to its proposal that stock options be booked as expenses. The expensing of stock options would change the financial position of many high-tech firms which frequently use the issuance of stock to employees as a form of payment).

The IASB also has something to tell us about the unevenness of the processes of economic globalization. The convergence of international standards is still very much an industrialized world phenomenon. This is largely because IFRS are overwhelmingly addressed to the informational needs of participants in capital markets: "preparers" (listed corporations) and "users" (investors and creditors). In many developing and emerging economies, there is little need for standards that express this kind of information because stock markets are not a major source of finance (if they exist at all) and businesses tend to be small and medium-sized entities (SMEs) and not the large, multinational corporations that are characteristic of North American and European economies. In response to criticism that the IASB's work is unduly biased towards the interests of rich country stakeholders, the Board has established a special Working Group on SMEs and there are plans to publish standards especially for SMEs.

Suggested Reading: **International Accounting Standards Board website.** www.iasb.org (accessed 23 February 2006).