

## Relevant Facts about IFRS

An excerpt from *Intermediate Accounting, 14<sup>th</sup> edition*

- International standards are referred to as International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB). Recent events in the global capital markets have underscored the importance of financial disclosure and transparency not only in the United States but in markets around the world. As a result, many are examining which accounting and financial disclosure rules should be followed.
- U.S. standards, referred to as generally accepted accounting principles (GAAP), are developed by the Financial Accounting Standards Board (FASB). The fact that there are differences between what is in this textbook (which is based on U.S. standards) and IFRS should not be surprising because the FASB and the IASB have responded to different user needs. In some countries, the primary users of financial statements are private investors; in others, the primary users are tax authorities or central government planners. It appears that the United States and the international standard-setting environment are primarily driven by meeting the needs of investors and creditors.
- The internal control standards applicable to Sarbanes-Oxley (SOX) apply only to large public companies listed on U.S. exchanges. There is a continuing debate as to whether non-U.S. companies should have to comply with this extra layer of regulation. Debate about international companies (non-U.S.) adopting SOX-type standards centers on whether the benefits exceed the costs. The concern is that the higher costs of SOX compliance are making the U.S. securities markets less competitive.
- This textbook mentioned a number of ethics violations, such as WorldCom, AIG, and Lehman Brothers. These problems have also occurred internationally, for example, at Satyam Computer Services (India), Parmalat (Italy), and Royal Ahold (the Netherlands.)
- IFRS tends to be simpler in its accounting and disclosure requirements; some people say more “principles-based.” GAAP is more detailed; some people say more “rules-based.” This difference in approach has resulted in a debate about the merits of “principles-based” versus “rules-based” standards.
- The SEC allows foreign companies that trade shares in U.S. markets to file their IFRS financial statements with reconciliation to GAAP.