

HOW DO ACCOUNTING REGULATORS RESPOND TO THE GLOBAL ECONOMIC CRISIS?

by Mohan R Lavi

Introduction

Governor Jerry Brown once remarked about USA " This is still a very wealthy country; the failure is of spirit and insight". This comment seems particularly relevant in these times when the entire world is pointing fingers at the United States for their misadventures. In this background, how do accounting standard-setters respond? The Public Company Accounting Oversight Board (PCAOB) in the United States has already published a list of considerations for an auditor in these times. The International Accounting Standards Board (IASB) on its part, has also come out with proposals to tackle the crisis from an accounting front.

IASB Proposals

The IASB published proposals to strengthen and improve the requirements for identifying which entities a company controls. Further proposals on off balance sheet items, covering the derecognition of assets and liabilities, are due to be published towards the end of the first quarter of 2009. This is apparently to plug the loophole with off-balance sheet vehicles which Madoff successfully misused for a 50 billion dollar fraud. The IASB and US Financial Accounting Standards Board (FASB) are both proposing changes in disclosure requirements for impairments to arrive in a common outcome. The proposals will enable companies to disclose the profit or loss that would have

been recorded if all financial assets (other than those categorised at fair value through profit or loss) had been measured using amortised cost (ie using an incurred cost model) or all had been measured using fair value. The boards are publishing their exposure drafts next week and are asking for comments by mid-January.

There are still differences between IFRS and US GAAP in credit-linked instruments which the FASB is proposing to plug. The IASB has also proposed that all embedded derivatives should be assessed and, if necessary, separately accounted for in financial statements. There has been a request for reclassification of the fair value option in these times since for a few assets there are no markets at all or there are no active markets. The IASB considered the issue and has decided that it would look at the fair value standards intoto instead of in a piecemeal basis just because of the credit crisis. Marking-to-market assets and liabilities and using the concept of fair value were only participants in the global credit crisis along with a host of other factors. The point to be debated is whether we need a separate accounting standard during these times of recession since IAS 29 prescribes considerations for hyper-inflationary economies?

Conclusion

It is apparent that there are going to be both major as well as minor changes to International Financial Reporting Standards (IFRS) over the next few years. India has not made any changes to its accounting standards in the recent past although we are almost on par with the IFRS save for some differences. One could expect changes in the accounting standards on financial instruments and the concept of fair value in certain given situations. Accounting professionals in India would need to be constantly updating themselves on the developments on these fronts since there is going to be a lot of action between now and 1.4.2011 when we transition to IFRS totally.

ANNOUNCEMENTS

Internal Auditor cannot be appointed as Tax Auditor - (12-12-2008)

The Council in its 281st meeting held from 3rd October, 2008 to 5th October 2008 at New Delhi considered an issue arising from the Guidance Note on Tax audit under section 44AB of the Income-tax Act,1961 as to "Whether the internal auditor of an assessee, being an individual chartered accountant or a firm of chartered accountants can be appointed as his tax auditor".

The Council decided that an internal auditor of an assessee, whether working with the organisation or independently practising chartered accountant or a firm of chartered accountants, cannot be appointed as his tax auditor

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