

The International Accounting Standards Board - needing ...

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The International Accounting Standards Board is undertaking a consultation - closing today - on its strategy.

The first questions it asks is this:

1. The current Constitution states, "These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions. " Should this objective be subject to revision?

I have submitted a response, saying there is, as such, no problem with the definition of the objectives for International Financial Reporting Standards noted above. There is, in practice, an enormous gulf between the stated objective and the delivery of International Financial Reporting Standards. The reality is that the International Accounting Standards Board has decided that information supplied to investors and other providers of capital in the world's capital markets is sufficient information to meet the needs of all other users of financial information in the course of making the economic decisions. It is almost impossible to see how this decision can be reconciled with the stated objectives of the Constitution, and it is equally difficult to see how this viewpoint can be sustained in the face of rational argument.

As has been argued by [Tax Research LLP](#), there are a wide range of users of financial statements, quite consistently identified over a long period of time to include:

â€šÃ„¢ The equity investor group (shareholders) ;

â€šÃ„¢ The loan creditor group (banks and bondholders) ;

â€šÃ„¢ The analyst-adviser group who advise the above groups;

â€šÃ„¢ Business partners; â€šÃ„¢ Consumers;

â€šÃ„¢ Employees;

â€šÃ„¢ The business contact group;

â€šÃ„¢ The surrounding community;

â€šÃ„¢ Civil society organizations; and

â€šÃ„¢ Governments and their institutions.

The first three such groups may (and we stress, may) have their needs met by existing data included in financial statements. This may be because the data they require is, in essence, required to undertake a remarkably limited function. Those users need, in the opinion put forward by the International Accounting Standards Board, to decide whether to continue their engagement with the entity solely in their capacity as suppliers of capital. As participants in the world's financial markets, which are (usually) liquid and functional they have opportunity, often at little more than a moment's notice to change their view on this issue, and engage or disengage as they wish. This then is a simple need of a group with remarkably little, or almost no effective or on-going relationship with the entity to which they provide capital, with which they have little or no effective actual relationship at all. It is this simple need that the IASB has chosen to address.

The needs of the other user groups for financial statements are complex. Those groups tend to have long-term relationships that are undertaken directly with the entity, or components of it, on a recurring basis. It may well be very hard for them to change these relationships in the short term. The relationships may be of dependency; they may be ones of oversight; they may be beneficial and they can involve the imposition of harm through the externalities of trade. But in almost no situation because of the complexity of the relationship is the information need of those users the same as that of the transient supplier of capital to an entity in the world's financial markets.

The supplier of capital may well view the entity with which it engages as a whole. The relationship can be viewed globally: financial statements prepared on a consolidated basis suit the need of these users.

The other user groups view the entity locally: their concern is with the part of the entity with which they engage, whether as supplier or customer, nationally or even more locally, as employer, as neighbour, as taxpayer, as polluter, as supporter of civil society, and much more besides. The key issue is that the needs we identify these user groups as having in that appendix are not just not being met, they are deliberately not being met as a consequence of the decision of the International Accounting Standards Board to ignore them even though the Trustees accept their duty to do so in their constitution.

It is this failure to provide relevant and reliable information to the great majority of

potential users of financial statements (they are of course only potential users since existing financial statements do not meet their needs) that poses the greatest challenge to and greatest threat to the International Accounting Standards Board.

There is no need for the International Accounting Standards Board to change its purpose. It is essential that it embrace the duty that it has accepted and now ensure that the information needed by "other users of financial statements" is made available to them to enable them to make the economic decisions which are frequently of much greater import to them, their families, their businesses, their localities and their nations than are those undertaken by the suppliers of capital. We stress: the economic decision in question are ones that they need to make based on data extracted from the general ledgers of the reporting entities subject to International Financial Reporting Standard and only capable of delivery to them as part of comprehensive, audited financial statements. Failure to embrace this obligation now will undermine the entire credibility of the International Accounting Standards Board. Embracing it will ensure its future. We think the issue as important as that.

But I wonder - will they simply abandon the duty to other users instead? That's been their tone to date.