

Why IASB Funding Matters

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The International Accounting Standards Board (“IASB”) is tasked with developing a single set of globally accepted financial reporting standards. In this article, we examine how the IASB is funded and why this matters.

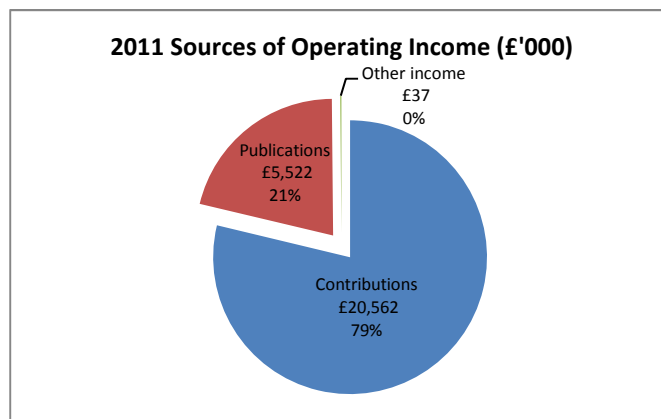


Today, about 120 countries require or permit the use of International Financial Reporting Standards (“IFRS”). However, the U.S. – the world’s largest economy – has yet to make a commitment as to if or when it will adopt IFRS.

One of the main roadblocks to IFRS adoption in the U.S. relates to the IASB’s funding structure. In its *Final Staff Report on the Work Plan for the Consideration of Incorporating International Financial Standards into the Financial Reporting System for U.S. Issuers*, the Securities and Exchange Commission (“SEC”) expressed its concern that the IASB relies on “large public accounting firms to provide funds to the IASB”. Thus, the lack of a stable and non-voluntary funding mechanism could make adoption of IFRS risky for U.S. companies.

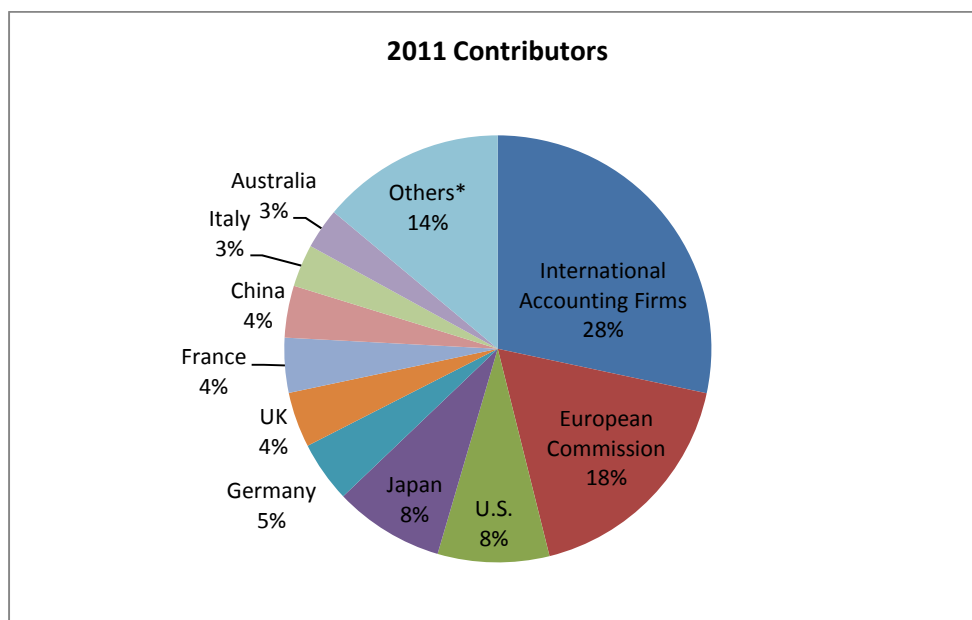
Where does the money come from?

The IASB, as a private not-for profit organization, cannot require companies or governments to fund its operations. Instead, the IASB relies on voluntary contributions from about 200 organizations to support its standard-setting activities. In 2011, approximately 79% of the IASB’s funding was sourced from contributions (£20.6 million), while most of its remaining income came from sales of publications.



Making the complex understandable

As shown in the chart below, the international accounting firms are collectively the largest donors, accounting for 28% of contributions to the IASB.



* Others include 17 countries, Bank of International Settlement, European Central Bank and Trustees which contribute between 0.02-2.5%.

Local governments also provide support to the IASB. Approximately 25 countries fund more than half of the IASB's contributions. The remaining 95 or so countries that allow or require the use of IFRS donated little or no money to the IASB in 2011.

Countries that provide support to the IASB sometimes impose a levy on listed companies to pay for the contribution. This is not how it works in the U.S., though. As the SEC is not allowed to act as a fundraiser for a foreign private organization, the £1.7 million of U.S. contributions in 2011 were sourced from the Financial Accounting Foundation, which operates the FASB (~£0.3 million) and voluntarily from the private sector (~£1.4 million).

Concerns about the IASB funding

In its *Report of the IFRS Foundation Trustees' Strategy Review 2011* (the "IASB Report"), the IASB acknowledged the following concerns regarding the voluntary nature of its funding:



1. There could be a possible lack of objectivity due to the temptation to provide special consideration in the standard-setting process to important financial contributors; and
2. There may be possible withdrawal of funding from contributors who may be dissatisfied with the outcome of the standard-setting process.

The IASB Report states that "while neither of these concerns [has] materialized in practice, there was a sense that dependence on voluntary contributions from largely private sources was inappropriate for an organization acting in the public interest and could deprive the organization of necessary resources in the future."

Furthermore, the IASB plans to expand its activities, and will need about £40-45 million annually in the not too distant future (2011 Budget: £26 million). The IASB is currently evaluating how it will be able to secure the additional funding.

IASB funding strategy – broad and sustainable

The IASB recognizes that its funding model must maintain the independence of the standard-setting process, while providing organizational accountability. It also acknowledges that it needs to expand its current base of financial support.

In the IASB Report, the IASB states that its funding system should possess the following characteristics:

1. It should comprise a long-term commitment (at least three to five years).
2. It should have public sponsorship (either direct or implicit governmental or regulatory support). This "public" element will remove any perception of undue influence.
3. It should be flexible to permit the use of differing mechanisms and to adjust to budgetary needs. The IASB feels that a levy on users and beneficiaries of IFRS might be a sensible approach in this regard.
4. It should be allocated proportionately among jurisdictions on the basis of relative GDP.
5. It should provide sufficient organizational accountability.

Conclusions

We at Mind the GAAP feel that the IASB's funding structure remains a major hurdle to U.S. adoption of IFRS. Even if the Boards can get past their differences on policy matters, a lack of stable funding mechanism could doom IFRS/U.S. GAAP convergence.

Making the complex understandable



Clearly, the IASB faces a difficult task in securing broad and sustainable funding. Given that the IASB does not have the authority to compel any government, preparer, or financial statement beneficiary to provide support, it needs to rely on persuasion and the initiative of existing and future donors. As mentioned earlier, only 25 countries contributed to the IASB in 2011, which was actually down from 27 countries that provided funding in 2010.

Another challenge lies with regulatory frameworks that may prevent certain countries from imposing levies on companies or providing publicly supported financing. The U.S., one of the IASB's largest contributors falls in this category. And given recent public spats between members of the IASB and FASB, it's very possible that the U.S. could withdraw, or reduce, its future voluntary funding. That, in our view, would likely put the final "nail in the coffin" for potential U.S. adoption of IFRS.

Making the complex understandable