



Accounting By Paul Pacter
standards
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At a recent seminar on International Financial Reporting Standards (IFRSs), I was invited to speculate on the direction of international standards over the next ten years. Taking a look at the International Accounting Standards Board's (IASB) active and research agendas, I see the following trends emerging.

Fair value

First, I expect to see greater use of fair values for financial statement measurements, particularly as methodologies improve. It's likely that all financial instruments for which reliable fair value measurements can be obtained will be measured in this way, with value changes in profit and loss. This will eliminate the need for most hedge accounting. Greater use of fair values for non-financial assets is also likely.

Related to this, reliance on management intentions as a driver of accounting recognition and measurement is likely to fall. A statement such as, "We intend to hold this investment for the long term, so fair value need not be reported," is not likely to hold much water.

Matching

Performance reporting, without reliance on the traditional notions of realisation and matching, will mean more components of income based on changes in values while assets are held and while liabilities are outstanding.

Accounting choices

The accounting policy choices that currently exist in IFRSs for certain types of transaction will be reduced. Either all companies will capitalise borrowing costs during construction, or none will. Also, it's unlikely that the current choices of proportionate consolidation and equity method in accounting for joint ventures will remain, though it's possible that both will be replaced by a different method.

A comprehensive balance sheet

All in all, there will be fewer opportunities for earnings management. More off-balance-sheet items will have to be moved onto the balance sheet, in such areas as pensions, leases, special-purpose entities, and possibly commitments. Non-traditional assets such as trade names, customer base, technology, employee skills and research outcomes will need to be recognised to reflect today's drivers of enterprise value.

The accounting entity

As companies increasingly operate through joint ventures, associates, affiliates and outsourcing partners, we will need a better definition of the accounting entity. At the moment, the underlying assets, liabilities, income and expenses of all of these types of arrangements do not show up in the consolidated balance sheet and income statement because the accounting entity is limited to the parent and its subsidiaries.

International trends

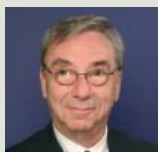
In Europe, the pan-European regulation of securities markets and enforcement of IFRSs will replace national regulation. In the United States, foreign registrants

using IFRSs will no longer have to reconcile to U.S. GAAP. I believe the IASB's scope could widen, to include financial reporting by governments and not-for-profit entities.

Broadening scope

The changes I have outlined will necessitate a redesigned income statement. This would reflect all revenues, expenses, gains and losses, with appropriate subtotals and segregations of different types of performance results (such as value changes), and with no profit and loss items reported directly in equity.

The traditional boundaries of financial reporting are expanding to include other aspects of a company's performance. The IASB has already published a discussion paper on management commentary. Many companies around the world continue to tout "non-GAAP earnings" and downplay reported profit or loss. Only a few countries set out standards for financial information reported in directors' reports, five- or ten-year summaries, forward-looking data and management discussions, and these generally come from securities regulators. I see some move towards global standards in these areas in the coming decade.



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