Iranian GAAP and IFRS: The history and current status of IAS/IFRS convergence process in Iran

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ABSTRACT
This study attempts to compare and highlight the major differences between International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) with National Accounting Standards (NAS) in one of the developing nations, Iran. Over the past two decades, the Iranian accounting standards setter, Audit Organization, has decided to eliminate the differences between IFRS and NAS as a part of its convergence and harmonization project. In 2011, the Audit Organization decided that IFRS implementation would be permitted for all listed companies. The primary purpose of implementing IFRS is to enhance the international comparability of financial reports, which would attract more foreign investors to participate in the Iranian capital market, improve the efficient allocation of resources and boost the competitiveness of the market. In spite of her announcement, Iran has not supported IFRS. The purpose of this paper is to provide possible reasons for non-adoption by highlighting some important socioeconomic factors that are likely to influence the accounting environment in Iran. The main question we try to answer in this study is: to what extent is Iranian GAAP congruous with IFRS?

Keywords:
Developing countries, IFRS, NAS, Harmonization, Convergence.

1. Introduction

The IASB[i] was founded as responsible to develop a single set of high quality, understandable and enforceable global accounting standards. During the past decades, several emerging nations have supported the IFRSS which are issued by IASB, but at the same time, IFRSS have been at the center of many debates. Nowadays, much attention has been given in the academic accounting research to accounting harmonization[ii] and convergence[iii]. Most of the research studies addressing the consequence of IFRS adoption focus on the advantages of this application in different countries. Some of these advantages include: the elimination or reduction of set-up costs in developing national accounting standards; use of one common global reporting language; increases in market efficiency in financial markets; provision of more suitable, understandable, comparable, and reliable financial statements; a reduction in the cost of firms for preparing financial statements; supporting the growing globalization of markets; attracting internal investment; improvements of the financial reporting quality for most countries; increases in the value-relevance; enhances in transparency, disclosure and comparability (Agostino, Drago, & Silipo, 2011; Ashbaugh & Pincus, 2001; Bartov, Goldberg, & Kim, 2005; Biddle & Saudagaran, 1989; Collett, Godfrey, & Hrasky, 2001; Covrig, Defond, & Hung, 2007; Doupnik, 1987; Flynn, 2008; Hail, Leuz, & Wysocki, 2009; Hou, Jin, & Wang, 2014; Jermakowicz, 2004; Jermakowicz, Prather-Kinsey, & Wulf, 2007; Karampinis & Hevas, 2011; Leuz & Verrecchia, 2000; Nobes & Parker, 2008; Rezaee, Smith, & Szendi, 2010; Roussey, 1992; Street & Gray, 1999; Tarca, 2004; Wyatt, 1997).

Ding, Jeanjean, & Stolowy (2005) briefly described the importance of international accounting harmonization:

- The rapid development of international capital markets and their role as an economic resources distributer
- Increasingly frequent cross-listing of multinationals generates an urgent need for single universal set of accounting standard for this firms
- And, activities of institutional investors.

Nonetheless, IFRS is not universally perceived as a panacea because harmonization and convergence is a very complex process influenced by political, cultural, and regulatory differences that often generate significant uncertainty and resistance (Rezaee, et al., 2010).

Over the last two decades, many attempts have been made to reach the benefits of adopting IFRS in lieu of Iran's national standards, and the financial reporting in Iran has changed as a result of important change of conditions. Therefore, this study has focused on the adoption of IFRS in Iran[iv]. Such investigation is important because in case of some national standards, Audit Organization has adopted IFRS but the application of IFRS does not extend to all of these[v]. Brown (2011) argues that International accounting standards are heavily influenced by Anglo-American traditions and adoption of international accounting standards by countries with other traditions will not, in itself, lead automatically to the same outcomes. In case of Iran, the only real pressure for not adopting IFRS comes from the cultural and economic environment that are further explained in what follows.

Culture: the influence of culture on accounting systems in different countries has been a research subject for many years (Askary, 2006). Most research studies have been conducted based on observations in developed countries. Therefore, the results of these research studies do not necessarily apply to other cultures. However, empirical examinations of the impact of culture on the adoption of international accounting standards are few in number but in recent years, there has been great interest in investigating the effects of cultural diversity in the adoption of IFRS (Akman, 2011; Borker, 2012, 2013; Cieslewicz, 2013; Clements, Neill, & Stovall, 2010; Houqe, Monem, & Tareq, 2013; Reisloh, 2011)

The national culture has an impact on the adoption of IFRS. The adoption of IFRS has generated significant conflict since the standards may be inconsistent with the cultural values in developing nation (Dahawy, Merino, & Conover, 2002). Ding et al (2005) explained that Hofstede's cultural dimensions (individualism versus collectivism, strong versus weak uncertainty avoidance, large versus small power distance, masculinity versus femininity) and Schwartz's cultural dimensions of values (Conservatism, Affective Autonomy, Intellectual Autonomy, Hierarchy, Mastery, Egalitarian

Commitment, Harmony) can be influenced in relation to IAS.

The Iran's decision on adoption or non-adoption of IFRS has been strongly influenced by the cultural factors. The disclosure requirements (like disclosing key management personal compensation in IAS 24) are one of the main conflicts between IAS standards and Iranian National Accounting standards.

Economy: The Iranian economy is highly depending on oil exports. Oil revenues play strategic role in the structure of Iran's economy. Iran needs to attract foreign investment because Iran's oil consumption pattern over last decades has been inefficient and contributes to the excessive consumption of fossil fuels and petroleum products. Rapid increases in domestic consumption of oil and its products may turn the country into a weak oil exporter after the year 2020 (Karbassi, Abduli, & Mahin Abdollahzadeh, 2007). The administration is attempting to follow the market reform plans by investing oil revenues in other areas of industries. Iran also expects to attract foreign investment by creating a more favorable investment climate. One of the ways to attract foreign direct investment (FDI) is improving the NAS and financial reporting (Mashayekhi & Mashayekh, 2008).

Some researchers (Ball, 2006; Guler, Guillén, & Macpherson, 2002) argues that the degree of inward FDI was positively associated with the adoption of quality international standards within a nation. Like many countries, for example China (Wang, Hou, & Chen, 2012), in Iran, the primary purpose of implementing the new accounting standards is to enhance the international comparability of financial reports, which would both attract more foreign investors to participate in the Iranian capital market and improve the allocation efficiency and competitiveness of the market

Judge, Li, & Pinsker (2010) argued that, Iran have relatively little inward FDI and this country continue to shun IFRS practices and norms.

Privatization: Privatization in Iran started in 1991; Iran's decision to privatize state-owned companies is to be achieved through the sale of state-owned corporations as a whole or as shares in stock market[vi]. This means that the country has to change its legal, political, economic and social environments to attract local and foreign investment. Adoption of IFRS plays an important role in this process.

In May 2002, the Iranian government, with the ratification of the Foreign Investment Promotion and Protection Act (FIPPA), adopted some policies aimed at increasing the attraction level of FDI (Ferretti & Parmentola, 2010).

The primary force behind the adoption of IAS in developing countries is inward flow of investment. Iran, while not formally adopting IFRS, implemented a set of accounting standards that were significantly congruent with IFRS. Therefore, we attempt to compare and highlight the major differences between IAS and Iranian Domestic Accounting Standards. We provide a study to show the emphasized of Domestic standard-setters in Iran on due process approach and the national condition benchmarks for accounting standard setting.

The purpose of this paper is to provide possible reasons for non-adoption by highlighting some important socioeconomic factors that are likely to influence the accounting environment in Iran. The value of the paper is to the IASB and other concerned bodies with substantial interest in Iranian accounting standard settings. This is the first piece of work that provides a thorough explanation on the differences between Iranian NASS and IFRSS.

2. Convergent / Improvements Project in Iran

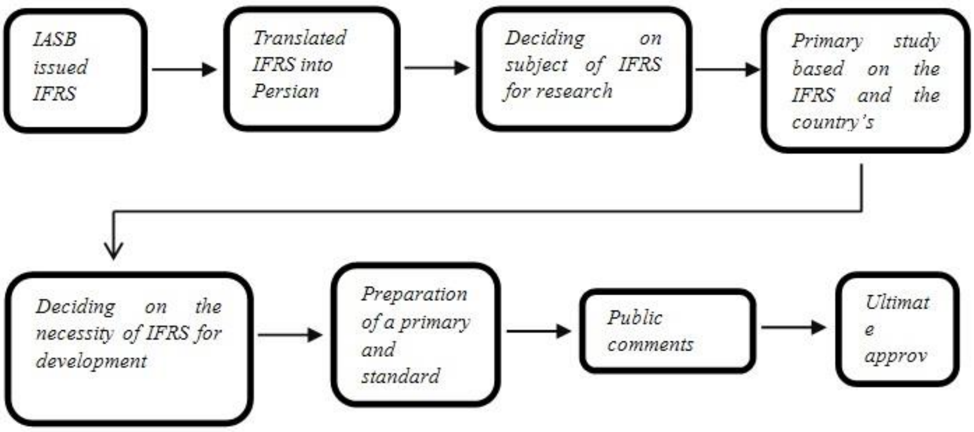
Prior to 1979 (the Islamic Revolution), there were no NASs and disclosure requirements were based on tax law (requires firms to prepare a balancesheet, income statement, and a list of shareholders), corporate law (specifying the rules for preparing financial statements, disclosing any changes in accounting methods, contingent expenditure, and the required methods of depreciation), and stock exchange regulations (Mashayekhi & Mashayekh, 2008).

After victory of Islamic revolution in Iran, many of the enterprises were confiscated under direct governmental supervision, all banks, industries and insurance companies were nationalized. Therefore, after Islamic Revolution demand for auditing and accounting services was shifted from the private sector to the government and semi-government sector (Roudaki, 2006), and to audit of these enterprises, three audit entities were established in the public sector.

Table 1. The history of accounting profession in Iran

Year	Events
1962	Formation of first association of "Accountant Under Oath"
1963	The Certified Public Accountant Association was established
1964	Foundation of the Iranian Accounting Association
1966	The Center of Iranian Official Accountants was established
1971	Foundation of Audit company
1974	The Iranian Expert Accountants Association was established, this association still operating
1987	Audit Organization was established
1999	The Committee of Compiling published the Accounting Declarations the first set of accounting declarations
2001	The first general meeting of the Iranian Association of Certified Public Accountants

In 1987, following the merger of the public-sector audit entities with Audit Company (established in 1971), the Audit Organization was established. Although accounting standard are usually set by professional institutions in developed markets the Audit Organization, as the only regulatory body for national accounting and auditing standards setting, was established by the government. Achieving convergence of accounting standards is one of the prime objectives of the Audit Organization and the Audit Organization is up to its eyes in this work. The process of adapting by Iran Standard Setters started in the year 1992, therefore, the Committee of Compiling the Accounting Declarations was assigned to bring the Iranian national standards closer to the International standard based on the environmental conditions.



Figur1. Accounting standards due process with regard to IFRS

The year 2005 was a turning point in tbe Iranian accounting regulation, considering the importance of the more understandable, comparable, and reliable financial statements. The Audit Organization is increasingly attempting to achieve congruence with IASs. In pursuit of this objective, the Accounting Standards Setting Committee[vii] have undertaken a convergent project (by revisions and additions to accounting standards, and by Exposure Drafts which aim to bring Iran more in line with the IFRSs) with the objective of reducing differences between IFRSs and Iran generally accepted accounting principles (GAAP). In this year, Iran has accepted international standards for more convergence and the Audit Organization developed revised standards as part of its project on convergence. The project's objective is to improve the quality of, and seek international convergence on, the accounting standards. The adoption of IAS/IFRS required major changes to the Iran's NASs, the revised standards Under the Convergent / Improvements Project are explained in what follows:

NAS 4 - Provisions, contingent liabilities and contingent assets

The objective of NAS 4 (2006) is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. According to revised in this NAS standard, the name of NAS4 (2006) is changed to "Provisions, contingent liabilities and contingent assets". This standard is broadly in line with IAS.

NAS 5 - Accounting for events after the balance sheet date

The objective of NAS 5 (2006) is to prescribe:

a) When an entity should adjust its financial statements for events after the reporting period; and
b) The disclosures that an entity should give about the date when the financial statements were authorized to be issued and about events after the reporting period.

According to the revisions in this standard, the proposed dividend after the balance sheet date cannot be recognized as liability in balance sheet date.

NAS 11 - Accounting for tangible fixed assets

Revised for Convergent / Improvements Project in NAS 11(2007) are including:

a) The cost of tangible assets including the initial estimates of the costs of dismantling and removing the asset and restoration of site and the obligation for which an entity incurs as a consequence of installing the item should be evaluated in present value.
b) According to this revised standard, an entity is required to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The previous version of this standard did not specify whether the residual value was to be this amount or the amount, inclusive of the effects of inflation, that an entity expected to receive in the future on the asset's actual retirement date.
c) An entity is required to begin depreciating an item of tangible asset when it is available for use. The previous version of this standard did not specify when depreciation of an item began.

NAS 12 - Related party disclosures

NAS 12 (2006) requires disclosure of related party relationships and transactions. Iranian disclosure requirements are based on accounting standards issued by the Audit Organization. According to the revised version, the application scope of the standard has been extended.

NAS 17 - Accounting for intangible assets

The previous version of this standard defined an intangible asset as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. In the revised version of NAS 17 (2007), the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset.

NAS 19 - Business combinations

The previous version of this standard covered both an acquisition of one enterprise by another (an acquisition) and the rare situation where an acquirer cannot be identified (a uniting of interests). According to the amendment, the Audit Organization decided to require the use of one method of accounting for business combinations—the acquisition method. In this version of NAS 19 (2005) negative goodwill and its accounting treatment has been removed. In the previous version, the minority's proportion were measured at the carrying amounts of the assets and liabilities, but in this version, they are measured at the Fair value.

NAS 20 - Accounting for investments in associates

Main changes of NAS 20 (2010) are described below:

a) An entity is required to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee.
b) The Standard clarifies that investments in associates over which the investor has significant influence must be accounted for using the equity method.
c) An investor must consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognizing its share of losses of the associate.

- **IAS/IFRS convergence in Accounting Regulations in Iran- Main differences remained**

Our findings of the differences in IASs and the accounting standards and practices of Iran is presented in this section. For the purpose of our research, accounting standards used in Iran were based on the Accounting standards that were issued by Audit Organization and IASs issued by IASB (IASC). We focused on key differences between the two standards, due to the negligent importance of some differences, in this section, a comprehensive standard comparison between Iranian GAAPs and IFRS is not included.

In summary, numerous factors, such as government laws and rules, religious beliefs, culture, economic and political conditions, have influenced and have been considered in the NASs setting processes in Iran. These differences in accounting standards are outlined below according to the same format used by Graham and Wang (1995) and Perumpral, Evans, Agarwal, and Amenkhienan (2009).

IAS 7 - Cash flow statements

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities, but based on national standard Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from taxes on income, also Cash flows from interest and dividends received and paid shall each be disclosed separately. Also, Accounting standards issued by the Audit Organization did not include the definition of cash equivalents and cash flow statements defined "cash" rather than to "cash and cash equivalents"

Table 2. The national standards that are broadly in line with IAS

NASS number	Subject	IAS$_S$/IFRS Number
1	Presentation of financial statements	1
3	Revenue recognition	18
4	Provisions, Contingent Liabilities and Contingent Assets	37
5	Accounting for events after the balance sheet date	10
6	Reporting financial performance	8
8	Accounting for inventories	2
9	Accounting for long-term contracts	11
13	Accounting for borrowing costs	23
14	Presentation of current assets & current liabilities	1
15	Accounting for investments	25
18	Consolidated financial statement and investment in subordinate	27
21	Accounting for leases	17
22	Interim financial reporting	34
27	Retirement benefit plans	26
30	Earnings per share	33
31	Non-current assets held for sale and discontinued operations	IFRS 5
32	Impairment of Assets	36

IAS 14(superseded by IFRS 8) - segment reporting

International standard required identification of two sets of segments—one based on related products and services, and the other on geographical areas. Also, International standard regarded one set as primary segments and the other as the secondary segments (with considerably less disclosure required for secondary segments). National standard does not permit the use of the primary and the secondary segments.

IAS 16 - Property, Plant and Equipment

The objective of International standard is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are the recognition of assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them. National standard (that were revised and became effective in 2007), except for an entity that is not required to measure the residual value of an item of property, plant and equipment, is now broadly in line with International standard.

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance

The objective of International standard is to prescribe the accounting for, and disclosure of, government grants and other forms of government assistance.

One of the main objectives of the Audit Organization is to provide the government with basic needs in the field of auditing and specialized financial services for state-owned and government supervised entities, therefore accounting standard setting in Iran was more based on legal laws and regulations. In this standard, these laws and regulations were considered but the IAS standard setting was based on the needs of the accounting profession.

IAS 21 - The effects of changes in foreign exchange rate

The objective of International standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Financial reporting in Iran has been based on the government's focus on accounting as a planning tool for the economy. Accounting standard setting in Iran was more based on legal laws and regulations, in this standard also, these laws and regulations were considered.

IAS 22(superseded by IFRS 3) - Business Combinations

The objective of International standard is to prescribe the accounting treatment for business combinations. The Standard covers both an acquisition of one enterprise by another (an acquisition) and also the rare situation where an acquirer cannot be identified (a uniting of interests).

The NAS achieves convergence with the requirements of International standard; except for amortization of goodwill (based on national standard Amortization of goodwill is permitted. In generally, this standard is broadly in line with the IASs).

Table 3. The international standards those are not accepted or not complied yet

IAS$_S$/IFRS Number	Subject	Adoption Condition
IFRS 1	First-time Adoption of International Financial Reporting Standards	Not Accepted
IFRS 2	Share-based Payment	Not Accepted
IFRS 6	Exploration for and Evaluation of Mineral Resources	Not Complied
IFRS 9	Financial Instruments	Not Complied
IAS 12	Income Taxes	Not Accepted
IAS 19	Employee Benefits	Not Accepted
IAS 29	Financial Reporting in Hyperinflationary Economies	Not Accepted
IAS 32	Financial Instruments: Presentation	Not Complied
IAS 39	Financial Instruments: Recognition and Measurement	Not Complied
IAS 40	Investment Property	Not Accepted

IAS 24 - Related Party Disclosures

The objective of International standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. International standard requires entities to disclose related party relationship and transactions. Most listed companies in Iran are state-owned companies, hence, the Iranian authorities argued that if these companies disclose all their related-parties transactions, the disclosure could be hundreds of pages long.

The disclosure requirements for key management personal compensation in International standard are one of other main conflict between IAS and NAS.

IAS 28 - Investments in Associates

The major differences between two standards include:

Equity method: based on the national standard, an investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with standard of Accounting for Investment from that date.

Amortization of goodwill: based on International standard, goodwill related to an associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted but based on the national standard, it is permitted.

IAS 38 - Intangible Assets

The objective of this International standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. The Standard requires an entity to recognize an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets. Based upon the International standard, the residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IAS 8 (a change in accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.) But NAS 17 (revised in 2007) not permitted the change in the asset's residual value.

IAS 41 - Agriculture

The objective of International standard is to establish standards of accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). Based upon the International standard, a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except in the case that the fair value cannot be measured reliably. However, in national standard biological asset (like property, plant and equipment) shall be measured at its cost.

3. Recommendation:

Until recently, the adoption of IASs seemed a necessary target. Accounting is affected by the cultural and economic conditions of the country in which it operates, but the preceding sections make it clear that there are no extensive gap between IASs and NASs. The compliance of national standards with bases of IASs is a cheaper route for Iran than preparing her own standards. Based on this view, we summarized our recommendation in three items:

- Iran needs to attract foreign direct investment and the adoption of IASs making it easier. Therefore, Iran should adopt the IASs with little or no amendments.
- The Audit Organization should be increasing the degree of partnership with international accounting standard setters in line with its objective of harmonization.
- The professional bodies have developed more elaborate systems for adoption of IASs and these bodies can help Audit Organization to achieve its objectives. Therefore, the Audit Organization should give more weight to the voice of these bodies.

4. Conclusion

International harmonization of financial accounting standards has been the objective of many accounting researchers during the last decades. Historically, the format of financial statements and disclosure requirements has varied from one country to another. Recently, due to the rapid development of international capital markets and their role as economic resources distributers, and the increasingly frequent cross-listing of multinationals have generated an urgent need for a single universal set of accounting standard for these firms and, activities of institutional investors. IASB have seen a steady increase in the impact of their accounting practices on developing and developed nations.

The paper had two purposes. First, it described the standard settings environment of Iran with regard the adoption of IAS (currently called IFRS). Second, it highlighted the differences between the IAS and national standards of Iran and the factors that influenced this divergence.

In this study, we reviewed the history of the development of Iranian accounting standards with the goal of identifying the process of convergence of the Iranian GAAP with IFRS and the practices that have been successful in that process. However, the issue of national standards compliance with international accounting standards is much debated in Iran. Over the past two decades the Accounting Standards Setting Committee (formerly the Committee of Compiling the Accounting Declarations) has been very interested in developing and implementing international accounting standards. In 2005, The Accounting Standards Setting Committee announced a plan to converge the Iranian Accounting Standards with the International Financial Reporting Standards. However, it retained the stipulation that any modifications will still have to reflect "Iranian conditions", because Iran has different culture, financial and legislative/legal system and tend to apply and interpret IFRS based on its national interest and biases. But the adoption of these standards by developing countries like Iran requires a high level of attention. The Iranian accounting system also have undergone important changes in recent years. These changes represent significant steps towards international accounting standards convergence. There is however still a long way to go, particularly regarding the correct application of IFRS to Iranian accounting practice. Social, cultural and political factors will not allow a complete convergence with IFRS. Though national standards in Iran are now based on IFRSs, Audit Organization do make either small or large changes to these standards. The relevance of the IFRS in developing countries depends on the needs which they are expected to address. Each country is a different case and each country must find the best way to harmonized and converge with IFRS.

This study is potentially useful for the IASB and other concerned bodies in its quest for a strategy to maximize and facilitate the adoption of international standards by developing countries like Iran. This convergence study has been helpful in enhancing understanding of the environmental influences affecting Iran's convergence efforts and accounting professional bodies' reactions to the government-imposed standards. The IASB and other concerned bodies could take a more active and supportive role in helping Iran in its transition to international accounting standards.

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Notes

[i] In 1973, the International Accounting Standards Committee (IASC) was established through an agreement of professional bodies of 10 countries: Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the United Kingdom, and the U.S. The International Accounting Standards Board (IASB) is a private organization of professional accountants was founded in April 1, 2001 as the successor to the International Accounting Standards Committee (IASC). The standards issued by the IASB are known as International Financial Reporting Standards (IFRSs), whereas the standards issued by the IASC are called to as International Accounting Standards (IASs).

[ii] Murphy (2000) argued that: “Harmonization is concerned with reducing the diversity that exists between accounting practices in order to improve the comparability of financial reports prepared by companies from different countries”. It also may be defined as ‘‘the process of bringing international accounting standards into some sort of agreement so that the financial statements from different countries are prepared according to a common set of principles of measurement and disclosure’’ (Haskins, Ferris, & Selling, 1996).

[iii] Ball (2006) argued that: “Convergence refers to the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards.”

[iv] All IAS/IFRS standards are translated into Persian (Farsi) and Iran has employed these Standards as the basis for developing its National Accounting Standards. Accounting standard setters in Iran have often been criticized for being unduly affected by international standards.

[v] The adoption of IFRS, particularly on the requirements for use of fair value measurements in financial statements in IFRS, has led to frequent criticism. Some researchers in Iran have argued that “The IFRS are fair value based standards” therefore, the fully use of IFRS is inconsistent with national economic condition (Iran has illiquid markets and use of fair value accounting cause to manipulate fair value estimates)

[vi] The Tehran Stock Exchange (TSE) established in 1967, followed the Islamic Revolution (1979) with expanded public-sector control (and reduced the need for private capital); stock market experienced a period of standstill (Mashayekhi & Mashayekh, 2008). After the 1991, the demand for private capital boosted the demand for stocks and the privatization (and sale of state owned corporation) led to the expansion of stock market activity. TSE is a founding

member of the Federation of Euro-Asian Stock Exchanges(jointed as full member in 1995) and Word Federation of Exchange (jointed as full member in 1994),

[vii] The Accounting Standards Setting Committee was established to replace the committee of compiling the accounting standard. this committee includes 9 members with following combination:

- 5 members of high manager of auditing organization;
- 2 members of Iranian Association of Certified Public Accountants;
- 1member of Stock Exchange organization, and
- 1 member of industry.