

# Accounting Profession Reacts to IFRS Plan<sup>1</sup>

## Introduction

For U.S. GAAP, the end of an era could be in the making. In August, the SEC unveiled a proposed road map that begins to widen the acceptance of International Financial Reporting Standards. The plan could lead to a requirement for U.S. public companies to begin using IFRS by 2014.

"It may be a very long time indeed before the world's six and a half billion people can all speak in the same tongue," SEC Chairman Christopher Cox said at the meeting during which the commission agreed to seek comments on the proposal. "Fortunately, we won't have to wait nearly as long for the language of business and finance to converge. One of the more revolutionary developments in the world's capital markets is the remarkably quickening pace of acceptance of a true lingua franca for accounting."

The road map would allow 110 of the largest publicly held companies—equal to 14% of U.S. market capitalization—to begin using IFRS voluntarily for their 2009 financial statements. The limited early use of IFRS is one of seven milestones the SEC would weigh in 2011 when deciding whether to mandate the use of IFRS. The proposal, now in the comment phase, leaves open the option of sequencing the rollout based on market capitalization.

AICPA President and CEO Barry Melancon expressed support for the SEC moving ahead with the proposal and for the concept of moving to a single set of high-quality global accounting standards for public companies. "The SEC noted education and training as one of the key milestones for the transition," Melancon said. "The AICPA is working to help members and future professionals understand IFRS and acquire the necessary skills to use these standards."

Arleen R. Thomas, AICPA senior vice president-member competency and development, said "the

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Institute supports an orderly transition from U.S. GAAP to IFRS and believes the U.S. capital markets will insist on IFRS. The SEC's plan continues a robust and thoughtful debate that is critical as the transition occurs."

View of other accounting thought leaders for their views on the SEC's proposal. Here are excerpts of their comments:

### **Convergence is Inevitable**

**Vaibhav Manek**, Partner KNAV adds, Convergence is inevitable. Consistency in accounting standards was advocated right from the early days of accounting. I believe that though the convergence will have its fair share of problems to deal with, it's the only way forward, as businesses have investors around the world; more so now than ever before.

In the long run, convergence to IFRS will have even its detractors agree that it was probably the best thing to have happened to the accounting profession.

### **IFRS Expected To Increase Investor Confidence**

**Cindy Fornelli**, executive director, Center for Audit Quality (CAQ)

We believe investors would benefit substantially if the participants in all of the major markets agreed on a common, easily accessible and understandable accounting language. If IFRS is to become the favored language of the accounting and business worlds, it should speak to the world's investors first and foremost.

Sixty-two percent of investors surveyed by the CAQ [in July] told us the creation of a single, uniform, international set of accounting standards would give them a higher level of confidence. Our hope is that IFRS will enable investors to more easily compare financial results of publicly traded companies in every corner of the world.

### **Don't Put Investors In The Back Seat**

**Jack T. Ciesielski**, owner of R.G. Associates Inc., former member of FASAC, AcSEC and FASB's EITF

I certainly support convergence, but I'm cautious. I don't want investors to suffer a loss of information or a decrease in the quality of information that they've become accustomed to receiving under U.S. GAAP. This is a monumental undertaking, almost as complicated as a moon shot, and I would hate to see investor information take a back seat to political expediency.

There are plenty of places where IFRS and U.S. GAAP are close, but the nuances of standards application can propel differences that last for years. There are plenty of accounting choices between the two that can produce accounting differences that last for years. How will the convergence process deal with these lasting differences? Or any differences, for that matter?

Some are obvious: We allow choices between LIFO and FIFO, while under IFRS, LIFO cannot be

used. If we were to eliminate LIFO usage here, would the SEC require "early adopters" to restate past statements under FIFO assumptions so that investors would clearly see the change's effect on trends? That could be a very cumbersome, perhaps impossible, task for some firms. Would the SEC give them a free pass?

I am concerned that in speeding up the U.S. to achieve convergence with other IFRS-using regimes, the SEC may give up too much from the investor's point of view to hasten the process. The benefits to investors have often been framed as "more choices, better information," but more choices don't always mean better investing, and better information depends on how standards are applied.

### **First Step For Issuers**

Aaron Anderson, director, IFRS policy and implementation, IBM

While the accounting differences between IFRS and U.S. GAAP may be significant for your company, there are several fundamental questions that should be answered before this comparison is started.

First, where are you doing IFRS today? If you have operations in Europe, Australia, Israel, China and dozens of other countries around the world, you're likely preparing statutory reports in some form of IFRS already. In answering this question, you will have to go deeper than the name of the country's accounting standard. Specifically, is a country's GAAP really "IFRS by a different name" or is it called IFRS-but is not?

Second, what adjustments are you currently making between your U.S. GAAP books and your statutory books prepared in accordance with IFRS? In most cases, these financial statements are audited and will provide you with a good starting point for determining the GAAP differences impacting your company.

Third, what benefits can you derive from the use of one GAAP for both statutory and consolidated reporting? That is, would adoption of IFRS globally by your company create opportunities for a broader finance transformation project that would increase standardization, centralization of processes, and realization of economies of scale? Are you a candidate for opting to report in IFRS under the criteria proposed by the SEC?

Finally, who in your organization would be impacted by a change from U.S. GAAP to IFRS? Studies have indicated that a strong internal, cross-functional team is a key element of a successful IFRS conversion. Identifying the various functional impacts of a change in accounting standards- and getting the buy-in from the leaders of those functions- will allow you to focus your company's response to IFRS.

**Source:** AICPA, Journal Of Accountancy

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