April 09

point of view

# Rethinking the path to global accounting standards*

Removing the uncertainty from transition

## Highlights

1. Resolving current regulatory challenges and restoring confidence in capital markets should be the immediate priorities of the SEC and other market regulators.
2. Adopting a single set of high-quality global accounting standards is in the best interest of investors, issuers, and regulators. IFRS is the only viable solution.
3. Once the independence and funding of the global standard setter are secured, a mandatory IFRS adoption date should be established.
4. A mandatory adoption date will eliminate much of the uncertainty hindering an efficient transition.

## Is transitioning to global accounting standards still the right move for U.S. business?

The forces driving the U.S. toward the use of global accounting standards existed well before the current credit crisis and will continue to exist after the economy has recovered.

The current economic crisis has exposed the interdependent nature of global business, and financial and capital markets, making the need for global accounting standards more apparent.

A globally consistent accounting framework will increase the cross-jurisdiction and cross-industry transparency and comparability desired by investors and other users of financial statements.

The U.S. has had, and will continue to have, significant involvement in the development of International Financial Reporting Standards (IFRS).

# Global markets need global standards

**Attaining the cross-border and cross-industry financial reporting transparency and comparability desired by investors will allow for more informed capital allocation decisions.**

The cross-border flow of goods, capital, and information has transformed world trade and global business. In response, the Securities & Exchange Commission (SEC) issued a Roadmap in November 2008 that, if implemented, may eventually move U.S. issuers to report under International Financial Reporting Standards (IFRS).

The ongoing financial crisis and the change in Administrations, however, have slowed progress toward this goal. In addition, many question whether shifting to a new financial reporting framework is appropriate, particularly in this economic environment.

The forces driving IFRS transition existed well before the financial crisis. In fact, they may be more apparent as the current economic challenges have exposed the interdependent nature of global business, and financial and capital markets.

### The value of one accounting language

Moving to a universal accounting language is a natural and necessary response to the globalization of business, finance, and investment.

A single set of high-quality global standards will reduce the unnecessary complexity that exists with multiple reporting languages. It will also:

- help achieve greater global comparability of information, improving investors' ability to assess investment options across a full spectrum of globally available securities;
- broaden the accessibility of cross-border capital thereby increasing the competitiveness of the U.S. capital markets; and
- generate process and cost efficiencies for multinational U.S. issuers over time as IFRS gains further acceptance for statutory and tax reporting purposes around the world.

### The clear choice

IFRS provides a high-quality, comprehensive and robust set of accounting standards. It continues to improve through the normal process of standard setting and the ongoing convergence efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

IFRS is currently used as the primary accounting framework, or is in the process of being adopted, in nearly all other significant capital markets worldwide. If the U.S. intends to work with other nations in developing one common accounting and reporting language, IFRS is the only viable solution.

While some are concerned about transferring standard setting responsibilities outside of the U.S., the U.S. has had, and will continue to have, substantial input into the international standard setting process through its representation on each of the IASB, the IASCF (IASB's governing board of trustees) and the newly created Monitoring Group. U.S. participation will be commensurate with the U.S. capital markets' stature within the global financial community.

### First things first: restore confidence in the capital markets

Although it is important to move forward with changing to IFRS in the U.S., current economic and regulatory matters take precedence.

Once appropriate and sufficient action has been taken to restore the economy, attention should be redirected back to achieving a single set of high-quality, global accounting standards.

As the proposed IFRS transition timeline remains five to seven years out, there is enough flexibility in the timeline to address the economic concerns and then refocus on IFRS.

# How to smooth the transition

**The Roadmap to a single set of high-quality global accounting standards must provide a mandatory conversion date to minimize uncertainty.**

There are currently numerous differences between IFRS and U.S. GAAP. While some differences will be eliminated through convergence, a full transition to IFRS remains the only avenue to achieving a single set of high-quality global accounting standards. Therefore, the path forward needs to be carefully planned, with clear goals that support the next-step decisions of all constituents.

## Funding and accountability

To generate the most value for investors and the world's economies, the system governing the further development of global standards needs to be free from bias and undue political influence.

Establishing the independent funding and accountability of the International Accounting Standards Board (IASB) and its overseer should be the only prerequisites for mandating transition to IFRS by U.S. companies. The independence of the IASB, in both fact and appearance, is dependent on a sustainable and diversified funding mechanism that crosses geographies, markets and industries.

New efforts have been made to strengthen IASB governance, oversight, and independence, including the establishment of a Monitoring Group to provide a formal link between the IASB and its trustees and major capital market regulators. This Monitoring Group can be effective in ensuring the roles and responsibilities of those responsible for the development of IFRS are being met.

## Set a mandatory conversion date

Once funding and accountability issues have been resolved, a mandatory conversion date should be set. Few, if any, companies are willing to expend money or resources without having a firm, mandatory deadline for compliance.

The Roadmap further compounded uncertainty by suggesting that early adopters may be required to supplement their IFRS financial statements with ongoing reconciliations to U.S. GAAP. One of the described benefits of this information would be to assist with a potential reversion to U.S. GAAP should the SEC ultimately decide not to move forward. Corporations simply cannot risk resources in this way.

A specified transition date provides the certainty and clarity necessary for stakeholders to move forward and address the regulatory, legislative, tax, educational, licensing, and conversion challenges.

The fixed date should allow enough time between the decision to move to IFRS and the date in which IFRS information will need to be captured for the initial comparative year. Our experience indicates that a period of 18 to 24 months is a reasonable time to accomplish this objective.

## Summary

While the SEC's proposed Roadmap represents a good first step on the path to full transition, the immediate focus must be on stabilizing the economy and restoring market confidence.

However, the underlying reasons for moving to a single set of high-quality global accounting standards remain relevant. IFRS offers the only means to achieve these objectives.

# Key questions raised by critics of IFRS transition...

## Q&A

**Q: IFRS lacks detailed rules when compared to U.S. GAAP. Shouldn't IFRS be further developed and improved before mandating transition?**

**A:** High-quality standards should set clear principles that guide users of those standards on how to reflect the economics of transactions in financial statements. This, combined with transparent disclosures, results in good financial reporting. Both U.S. GAAP and IFRS, the two best standards available globally accomplish this mission. Yet both require significant improvements in similar areas to attain the highest level of quality. We believe IFRS will continue to improve over time through the normal standard setting process, and as the evolution of business necessitates change. With mandatory change still five to seven years into the future, major improvements can be achieved before transition.

**Q: An effort is already underway to converge U.S. GAAP and IFRS standards. So why not just keep converging?**

**A:** To date, the convergence process has proven long, difficult, costly, and not wholly successful. Since starting their joint efforts in 2002, convergence efforts have monopolized the FASB's and IASB's agendas. Despite their best efforts over the last seven years, numerous differences remain--even on some standards that purport to have been converged. Convergence will create a long-term, steady stream of changing standards that will result in an IFRS-influenced version of U.S. GAAP, rather than a single set of fully converged standards. Getting to a single set of high-quality global standards for investors is the right goal. Mandating the transition to IFRS is the best approach.

**Q: How will U.S. interests be protected if standard setting is the responsibility of a non-U.S. organization?**

**A:** U.S. interests are best protected when American businesses and investors compete more effectively with other businesses and investors outside U.S. borders. The objective of a global standard setter is to develop and maintain high-quality standards that benefit all investors.

The U.S. has had, and will continue to have, substantial input into the international standard setting process through its representation on the IASB, the International Accounting Standards Committee Foundation (the IASB's governing board of trustees) and SEC representation on the newly created Monitoring Group. Significant participation in each of these organizations responsible for the development of IFRS will be commensurate with the U.S. capital markets' stature within the global financial community.

## Contact information

To have a deeper discussion about how a transition to IFRS might affect your business, please contact:

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