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Slowing down the pace of standard setting

New accounting standards are being developed at an unprecedented pace. Is this pace realistic?

Highlights

- Standard setters are targeting completion of numerous major accounting standards by 2011.
- Issuing high quality standards is of the utmost importance.
- Standard setters should reevaluate the current timeline and set more reasonable expectations in order to achieve their desired high quality output.

Can high quality standards be issued in the timeframe proposed?

- We fully support an aggressive standard setting timeline and the goal of attaining a single set of high quality global standards. However, we do not believe the current timeline proposed by standard setters is sufficient given the number and complexity of the projects.
- To respond to concerns expressed by constituents, the boards recently announced a modified strategy that commits to an increase in stakeholder outreach, and narrows the scope and slows the pace of development of certain standards. While this is a positive step, we continue to believe that the boards' objectives of issuing high quality standards will necessitate a more measured pace.
- Despite the boards' commitment to perform additional outreach, we do not believe that constituents have the resource bandwidth within the targeted board timelines to complete effective, thorough analyses of the accounting, business, and operational impacts of these numerous complex proposals in order to provide the right level of meaningful input. Preparers are also coping with major regulatory change and recovering from a severe economic downturn.
- Our experience with the standard setting process suggests that staff and board members need sufficient time to thoughtfully consider constituent input; to analyze, evaluate, and consider alternatives; and to deliberate with other board members in order to issue standards that have duly considered all important ramifications and unintended consequences.
- Recognizing the inherent need to balance speed to completion and efforts aimed at enhancing quality, we believe the targeted time periods in the boards' recent release are not sufficient.

Standard setters are working to meet an aggressive timeline

Developing high quality standards that are operational, implementable, and cost effective takes time and requires a rigorous process.

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the boards) are working on about a dozen joint projects with at least five considered major projects, designed to improve both U.S. generally accepted accounting principles (U.S. Standards) and International Financial Reporting Standards (International Standards).

These projects are part of a wider goal to converge and improve U.S. and International Standards in key areas. The boards have received pressure from the European Union (EU) and the Group of Twenty Nations (G20) to finalize major projects by 2011, a date that was established by the boards in an update to their memorandum of understanding in 2008.

While convergence is an important component of achieving a single set of high quality global accounting standards, some, including us, question whether the 2011 deadline can be met given the multitude of convergence projects. We believe that despite the recently announced modified strategy that narrows the scope of and delays certain projects, the timeline is still aggressive and does not allow enough time for the boards' thoughtful rigorous normal processes. As a result, we believe the boards will be required to adopt a more measured pace to achieve their desired high quality output.

Standard setting process

Standard setting has traditionally followed a rigorous process to ensure release of high quality standards which provide investors with relevant, reliable financial information to guide investment decisions. High quality standards also can be understood and implemented by preparers and audited by auditors.

Field studies and research

Performing research and conducting field studies are important elements of the process. Standard-setting staffs need time to perform adequate research on past and current standards and their interrelationship with other standards. Field studies ensure the standards being developed are operational and implementable.

Preparation and analysis

Thoughtful staff papers need to be prepared. Board members need time to analyze and thoroughly digest staff papers. Time is needed for board deliberations to fully evaluate alternative views about how to faithfully represent the economic substance of transactions. While some compromise is necessary in any consensus driven process, standard setters proceed cautiously to avoid decisions that result in lower quality standards.

Writing standards

Sufficient time is needed to write standards that are comprehensive, easy to understand, and clear enough to consistently apply. The boards' objectives are to avoid standards that are vague, lack clarity or are unnecessarily complex, resulting in potential misinterpretation by users, preparers, regulators and auditors.

Preparer input

Preparer input is necessary to make proposals operational and implementable. Preparers need time to fully analyze the accounting, business, and operational impacts of proposals. Multiple, significant proposals released in a short timeframe cause preparers to be too overwhelmed to effectively analyze and comment. This results in less meaningful feedback.

User input

User input is essential to properly guide the boards. Users need to be educated as standards are developed. Time is needed for sufficient analysis and to respond to proposals, such that standards address their requirements or concerns.

Issuing high quality standards is paramount

Further reassessment and reprioritization is necessary to ensure timelines are sufficient. Priority should be given to financial instruments related projects and revenue recognition.

High quality standards

High quality standards achieve acceptance by both investors and preparers worldwide. Recognizing the boards' desire to issue high quality standards, we believe the necessary steps to do so will require further extension of the proposed timeline.

Prioritization of projects

Current convergence projects should be prioritized based on existing divergence and the need for improvements in the standards that will be replaced. Somewhat consistent with the boards' recently announced modified strategy, we believe the financial instruments related projects should have the highest priority for completion followed by revenue recognition and then leasing.

Looking forward

The boards have taken a step forward by narrowing the scope and reprioritizing projects, delaying targeted completion of certain projects and increasing stakeholder outreach. While this is a positive step, in our view, they have not gone far enough. Preparers, many of whom are simultaneously dealing with regulatory change and the effect of the economic downturn, will still need more time to respond to these complex proposals in a rich and robust way. For example, some of the largest global companies have told us that responding to four major proposals out for comment at any one time is still a great challenge. The boards need to take the time necessary to get significant user and preparer input on proposals to achieve operational, implementable, high quality new standards.

We recognize that others may not prefer further delays. Some feel that convergence has already dragged on for far too long and they are tired of accounting change. They observe that a stable accounting platform immediately after adopting countries change to International Standards would be helpful. They asked the IASB (and the IASB agreed) to subject its post June 2011 agenda to a renewed consultation process.

Others are concerned that further delays combined with the outcome of this renewed consultation process may be that certain important projects not completed as of 2011 may never be completed.

It is evident to us that we are on a journey toward improving financial reporting, not a sprint. Issuing high quality standards is paramount. And the thoughtful rigorous process necessary to do so takes time. Although we understand why the boards are driving their agendas so quickly, we believe they should reassess and reprioritize still again to make sure timelines are sufficient.

To be clear, we are not suggesting an open ended process that would go on indefinitely. We believe the boards should set an aggressive timeline with specific dates to drive discipline in their process. However, the timeline needs to be sufficient to allow for the input necessary to produce the high quality accounting standards desired by the boards.

We agree that periodically re-exposing and reprioritizing one's agenda is wise. It is worth remembering that one reason the agenda is so full is that the financial instruments project was added in response to the financial crisis. So, we welcome a new look. The major joint projects currently on the boards' agendas were thoughtfully added in the first place. The most important projects not completed by 2011 will likely stay at the top of the priority list for the very reasons they were first added. Due to the work done to date, their completion should be expeditious in the post 2011 period.

Lastly, the boards will issue a consultation paper on effective date and transition methods. We believe that to address the matter of a stable platform, the boards should consider greater use of extended adoption periods, allowing for early adoption options (combined with full disclosure during transition periods). This provides flexibility for preparers while still providing sound information for investors.

These major projects are important to the goal of achieving a common accounting framework

Q&A

Q: Why are the boards targeting completion of convergence by 2011?

A: The 2011 target date was set due to several factors.

- The G20 requested that standard setters complete convergence projects by 2011.
- Constituents in parts of the world are growing increasingly impatient with accounting changes resulting from convergence projects and prefer to focus solely on improving International Standards.
- Certain key IASB members' terms will end in 2011, including the chairman. With the change in members, board priorities may change. Concern exists that unfinished convergence projects may never be finalized.

Q: Why have you prioritized the projects the way you have?

A: The financial crisis exposed weaknesses in accounting and reporting of financial instruments. Addressing these weaknesses is a priority. As such, we believe the financial instruments related projects should have the highest priority.

Revenue recognition is the next most important project. Revenue is an important investor measure. This project will reduce inconsistencies in existing standards and develop a single revenue recognition model applicable across industries. Completing revenue recognition in 2011 should be a goal.

We are not suggesting the boards suspend their other efforts. We agree, for example, that the leasing standards should be replaced. However, current U.S. and International Standards are similar and understood by investors globally, despite shortcomings. A revised leasing standard, therefore, could move down the priority list and be finalized later in 2011 or 2012.

We recognize that our point of view balances many factors. Others may have different priorities. Most important is further prioritization of the agenda and reassessment of timelines.

Q: In its published statement on International Standards, the SEC stated that a factor in its decision in 2011 will be completion of the convergence projects. How will completion of convergence affect the SEC's analysis?

A: Some believed the SEC statement required completion of convergence by 2011. Recently, the SEC chairman clarified that adjustments to the targeted timeline would not impact the SEC's analysis of IFRS. This is a positive sign; however, exactly how much progress is needed remains unclear.

Q: Are you suggesting that the standard setters are not seeking and considering input in developing standards?

A: No, in fact, the boards have taken additional steps to enhance outreach to constituents. This outreach has helped them gain valuable insights which they consider during the deliberation process. Constituent input is critical and we encourage preparers, users and others to thoughtfully analyze the proposals and provide input to the boards.

Contact Information

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