At the start of a recent Financial Executives International (FEI) conference titled “Global Financial Reporting Convergence,” I thought, “Ah, ha! Now we’ll find out what the ‘convergence’ of global accounting standards actually means in America.” Unfortunately, it didn’t exactly happen that way. It appears that not only am I still confused, but now a significant number of CFOs, reporters, and pundits might be as well.
First, the term “convergence” could be misleading to the nonexpert. Are accounting standards around the globe really “converging”? The International Accounting Standards Board (IASB), composed of leading international thinkers on accounting theory and practice, has developed a single set of quality accounting standards called International Financial Reporting Standards (IFRS), and countries are converting en masse to IFRS as their local Generally Accepted Accounting Principles (GAAP). The intention of the IASB isn’t to encourage hundreds of different local GAAP to slowly morph into IFRS—as the term “global convergence” would imply.

Second, there’s an underlying assumption in America that “convergence” means that the Financial Accounting Standards Board (FASB) is working toward moving IFRS in the direction of U.S. GAAP. The FASB and the IASB are working together to bring the best possible thinking to IFRS through several “convergence projects,” but this doesn’t necessarily mean that IFRS are eventually going to look more and more like U.S. GAAP. FASB Chairman Robert Herz is firmly behind principles-based standards, and, for all intents and purposes, both Boards are behaving as one, moving toward the goal of, as Herz calls it, “a one-GAAP world.”

WHAT ABOUT THE TIMING?
Semantics aside, how is it that Australia, Canada, Japan, China, and the whole of Europe have either converted or are converting to IFRS now, while America is still focusing on the outcome of a “convergence” process? Some observers, as well as the U.S. regulatory community, have expressed concerns that if the U.S. straight out adopts IFRS as they currently sit, the convergence projects of the FASB and IASB could come to a halt, leaving the U.S. with an IASB-only solution to some pressing issues (business combinations, conceptual framework, consolidations, earnings per share, employee benefits, fair value, income taxes, financial statement presentation, insurance contracts, joint ventures, leases, liabilities and equity, and revenue recognition)—as if the FASB will somehow immediately lose interest in developing one set of global accounting standards or the IASB will say, “Now that you’ve adopted IFRS, America, I think we’ll take it from here.” The likelihood of either of those happening is zero to none.

In defense of the U.S. regulatory community and others who continue to emphasize a process of convergence as opposed to immediate adoption of IFRS as they currently exist, perhaps this is to provide an added sense of security as they see it—suggesting that if IFRS are designed with U.S. GAAP in mind (which, by the way, is still assumed by many to be a more rigorous set of standards), the interests of American investors will be better protected. Furthermore, when it comes to adopting a set of accounting standards that weren’t “Made in America,” it might be a bit of a tough pill to swallow. As Mark Olson, chairman of the Public Company Accounting Oversight Board (PCAOB), notes with respect to American business practices and competitive strategies in general, “We in the U.S. are not internationalists.”

MORE QUESTIONS
Alternatively, it could simply reflect a desire on the part of U.S. regulators to make no sudden movements in a world weary of Section 404 of the Sarbanes-Oxley Act (SOX) and Accounting Standards AS2/AS5, particularly when they have an XBRL adoption rule in the wings for 2008. Regulating another round of internal cost increases for U.S. preparers at this time, not to mention another likely increase in auditor fees, may not be the best regulatory strategy. It also poses some questions that aren’t insignificant. For example: What will be the role of the FASB going forward? Can we expect the two Boards to merge? How will the IASB be funded? What is the role of the SEC in terms of oversight and funding, if any, vs. the International Organization of Securities Commissions (IOSCO)?

Taking a wait-and-see attitude may also simply reflect the need to further understand the economic and political implications of adopting IFRS before pressing on. America paid the costs of climbing the learning curve on SOX 404. The rest of the world who adopted, or are adopting, some form of internal control certification are happily benefiting from the U.S. experience and the training in the audit community. Perhaps it’s America’s turn to wait for best practices—or at least until there’s enough evidence to suggest that the audit community has a handle on IFRS.

Finally, adopting IFRS has much wider implications than just applying a different set of accounting standards to financial reporting. As Bob Herz explains, “In order to live in a world of principles-based standards, we have to get our own act together here. That involves thinking about our system holistically and making some changes—institutional changes, cultural changes, legal and regulatory changes.”

Whatever the reason behind the continued emphasis on a process of “convergence,” let’s be clear—the train has left the station on IFRS. Most experts and observers alike understand that the U.S. will eventually be “con-
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verting” to IFRS—it’s only a matter of when.

GETTING ON WITH IT

Despite the reasons to proceed cautiously with IFRS in America, there are also valid reasons to adopt them sooner rather than later. After all, the more we delay the ability of U.S. firms to use IFRS, “the more U.S. companies are placed at a disadvantage cost-wise,” says Tom Jones, vice-chair of the IASB. As the argument goes, international investors will gravitate toward those firms whose books are comparable internationally, lowering their cost of capital. Second, in order to raise capital internationally, U.S. firms may find themselves in the position of having to report under IFRS anyway, which would require them to keep two sets of books vs. one set of books kept by IFRS-reporting firms.

What are the implications of setting a date for adoption—like 2011—as Canada has? First, it provides a hard target, without which it isn’t likely that American public companies (particularly small and medium-size enterprises) are going to commit resources. Second, four years sounds like plenty of time, but, as the Canadians found out, in order to prepare for 2011 you have to start the conversion process NOW, and it’s a lot more complex than first meets the eye. Here is the timeline set by the Canadian Accounting Standards Board (AcSB) leading to IFRS adoption in 2011:

January 2006—AcSB announces intention to adopt IFRS in Canada
2007—AcSB reviews readiness of Canadian companies
March 2008—Final approval of 2011 following readiness review
2008-2011—Introduce new Canadian GAAP standards that are consistent with IFRS
2008—Companies are required to disclose transition plans to stakeholders
2009—Companies must disclose broad impact of IFRS in 2009 filings
January 2010—IFRS standards must be effective practically (must be able to make year-over-year comparison in first year)

January 1, 2011—Proposed implementation date

In addition to determining the significant differences between Canadian GAAP and IFRS now, companies are also considering the strategic and operational impacts such as implications regarding their current lending agreements, taxation issues, executive compensation, debt covenants, profit sharing and employee incentive programs, impact on critical risk factors, role of external and internal auditors, impact on certifications and internal control testing, process changes, information systems impacts, legal and investor relations impacts, asset management and hedging strategies, the impact on the board/audit committee, and the human resource and training requirements, not only in the finance function but across the company. As Alister Cowan, CFO of BC Hydro, states, “It’s certainly clear that, looking at the changes, it’s one of the biggest revolutions in financial reporting that we’ve seen. The thing that keeps me awake the most at night is my IT systems, converting my systems to be IFRS compatible.”

At the end of the conference, I leaned over to a fellow delegate and asked, “Can you tell me what accounting standards convergence really means in America?” He said, “the evolution of IFRS and U.S. GAAP so that they are virtually identical.” Thankfully, this told me that I might not be the only one who was still perplexed by the “convergence”/“conversion” dialogue in America. Please, let’s be clear. IFRS will be adopted in America—the only question is when—and they will look a whole lot different from U.S. GAAP. IFRS are principles-based standards, not rules-based standards, and most of the world has already recognized that IFRS, as developed by the IASB, are high-quality accounting standards. As Richard Ketchum, CEO of the NYSE Regulation, Inc., said in his opening remarks at the conference, “Let’s just get on with it.”

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