

A New Column for Changing Times

BY BRUCE POUNDER, CMA, CFM

Welcome to *Strategic Finance's* new “Financial Reporting” column. I’m Bruce Pounder, and each month I’ll be writing about major developments in corporate financial reporting that are occurring in the United States and around the world. If you have managerial responsibility for the preparation of external financial

reports, you’ll benefit from being a regular reader of this column. My ultimate goal is to help you do your job more effectively and efficiently in a time of great change.

Why This Column? Why Now?

Many significant changes are taking place in today’s financial reporting environment. Individually and collectively, those changes are profoundly affecting the way in which companies perform financial accounting and communicate financial information to external stakeholders—investors, creditors, securities analysts, regulators, and others. Unfortunately, the magnitude and pace of change have made it very difficult for financial managers to keep up. That’s why this column is needed, and needed now.

At first glance, it may seem odd to

have a column about external financial reporting in the flagship publication of an organization that is better known for its focus on internal management reporting. But the rationale for this column is straightforward. Most practitioners of management accounting/reporting hold jobs that involve a broad range of responsibilities, and those responsibilities often include financial accounting and reporting.

The Institute of Management Accountants (IMA®) has long recognized that financial accounting and reporting skills are critical to the success of accounting and finance professionals, especially those who have managerial responsibilities. This regard has been reflected in

- ◆ The content of the Certified Management Accountant (CMA®) examination;

- ◆ The content of IMA’s continuing professional education offerings;
- ◆ The activities of IMA’s Financial Reporting Committee, Small Business Financial and Regulatory Affairs Committee, and director of professional advocacy; and
- ◆ The establishment of IMA’s new Finance Governance, Risk, and Compliance (FGRC) research practice.

By providing you with practical, timely information on the technical, managerial, and career implications of changes that are taking place in the financial reporting environment, this column will complement and enhance IMA’s present resources and activities in the area of external financial reporting.

What’s Behind All the Change?

For many years, standards setters in the U.S. and throughout the world have been working aggressively to eliminate differences in financial reporting standards among countries. This phenomenon is often referred to as “the global convergence of financial reporting standards,” or simply “Convergence.” Nearly all of the significant changes that are occurring in financial reporting can be

traced to Convergence. Consequently, Convergence will be the major recurring theme of future columns.

One aspect of Convergence is that all major economies, with the notable exception of the U.S., have already converted or committed to convert to a country-neutral set of financial reporting standards known as International Financial Reporting Standards (IFRS). Currently, more than 100 countries require or allow companies that are subject to statutory financial reporting requirements to use IFRS instead of traditional country-specific sets of financial reporting standards such as U.S. Generally Accepted Accounting Principles (GAAP) or Japanese GAAP.

But how much impact will Convergence have on financial reporting going forward? For financial man-

On July 17, 2008, Bruce Pounder will present a live *Inside Talk* webinar titled “What U.S. Accountants Should Know About IFRS.” IMA members may participate for free and earn one hour of CPE credit. For more information and to register, visit www.imanet.org/development_webinar.asp.

agers in the U.S. and other countries that have not yet made the transition to IFRS, I state bluntly: “Everything you know about corporate financial reporting will become obsolete over the next 10 years.” (*The Convergence Guidebook for Corporate Financial Reporting*, Wiley, November 2008) Even in countries that have made the transition to IFRS, Convergence will continue to bring significant change as the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) continue working to eliminate differences between U.S. GAAP and IFRS.

In particular, the impact of Convergence in the U.S. will be profound for both companies and individual financial professionals. Because of Convergence,

- ◆ U.S. GAAP is changing;
- ◆ U.S. GAAP is becoming optional; and
- ◆ U.S. GAAP will eventually go away.

Thus, every company that prepares financial reports in accordance with U.S. GAAP will be significantly affected by Convergence.

A Look Ahead

Within the overall theme of Convergence, I’ve identified four core subject areas for this column to explore over time. Here’s a preview of those subject areas along with some examples of specific topics that you can look forward to learning about:

Cleaning up U.S. GAAP. For several years, the FASB has been working to “clean up” U.S. GAAP in order to make it more usable and to facilitate further comparison and convergence with IFRS. In April 2009, the FASB will make its new *Accounting Standards Codification* the single, authoritative source of U.S. GAAP, replacing the confusing jumble of pro-

nouncements and practices that constitute GAAP today and significantly altering GAAP’s hierarchy of authoritativeness (see “Framing the Future: A first look at FASB’s GAAP codification,” *Journal of Accountancy*, May 2008). Because the Codification will impact the day-to-day work of nearly every financial professional who practices, teaches, or researches accounting in accordance with U.S. GAAP, you can be sure that it will be covered in upcoming columns.

Ongoing standard-level convergence between U.S. GAAP and IFRS. The FASB and IASB are actively conducting several joint projects aimed at eliminating the differences between their respective sets of financial reporting standards. In most cases, the Boards’ joint projects will bring significant changes to both U.S. GAAP and IFRS. Future columns will explore those projects, such as the Financial Statement Presentation project, which will result in a complete overhaul of the contents and formats of the principal financial statements.

Choice of financial reporting standards for publicly held companies. In November 2007, the U.S. Securities & Exchange Commission (SEC) effectively gave foreign registrants the choice of using either U.S. GAAP or IFRS when preparing financial statements to be filed with the Commission. More recently, the SEC has moved to provide U.S. registrants with the same choice. It’s important to recognize that “choice” isn’t “Convergence” but rather an interim step toward the adoption of a common set of financial reporting standards by companies in all countries. On an ongoing basis, this column will explore the implications of having a choice of standards, which will create new opportunities and incentives

for both publicly held and privately held U.S. companies.

Differential financial reporting standards. Ironically, as the FASB and IASB work to eliminate differences in financial reporting standards among countries, both Boards are also exploring the possibility of introducing different standards for different kinds of reporting entities. In the U.S., this reflects the state of the “Big GAAP/Little GAAP” debate, which has traditionally focused on how expectations and capabilities may differ depending on whether a reporting entity is publicly held or privately held. The ultimate outcome of that debate depends on whether privately held companies move toward or away from country-neutral financial reporting standards and, if toward them, whether country-neutral standards eventually become differential in nature—all of which you can expect to read about here.

Today’s financial managers are expected to possess a diverse set of knowledge, skills, and abilities that must be updated continuously. But doing so is particularly challenging in the area of financial reporting because of rapid, profound changes that are taking place throughout the world. To learn how changes in financial reporting will impact your job and in your career, I invite you to join me here each month. ■

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