

Reviewing the Roadmap

Don't believe all you read or hear about IFRS in the media. There seems to be a flow of misinformation that needs correcting. A clear understanding of the source documents will help you avoid the hyperbole.

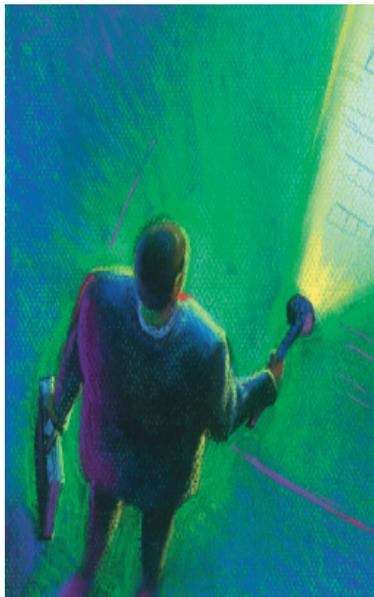
On November 14, 2008, the U.S. Securities & Exchange Commission (SEC) issued Proposing Release No. 33-8982, "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers." Unfortunately, rather than dispelling any of the myths about International Financial Reporting Standards (IFRS) that are prevalent in the United States, the proposed Roadmap's release seems to have triggered a fresh flow of misinformation from the business media and other parties. In this month's column, I will attempt to set the record straight about the SEC's proposed IFRS Roadmap.

Facts vs. Headlines

Let's start by reviewing basic facts about the Roadmap, which can be stated quite succinctly. First, the SEC has proposed to eventually consider whether to require companies under its jurisdiction to use financial reporting standards that

will necessarily be superior to current U.S. Generally Accepted Accounting Principles (GAAP) and current IFRS starting no sooner than six years from now. Second, the rationale for the proposed Roadmap is that a single set of global standards that are better than current U.S. GAAP and better than current IFRS would benefit U.S. investors and businesses. Third, the SEC has proposed allowing the use of current IFRS by a limited number of eligible U.S. issuers if that use would enhance the comparability of financial information for investors.

Those are the facts. You may



want to read them again because they contrast sharply with the typical media headline, "SEC rushes to force inferior standards on U.S. companies because everyone else is doing it." Sadly, but not uncharacteristically, the media have largely ignored and distorted the facts about IFRS and about major developments related to IFRS in the U.S. As an antidote to the blatantly inaccurate things you may have read or heard regarding the SEC's proposed Roadmap, here are four truths to keep in mind.

First, the document issued by the SEC is a proposal, not a "done deal." As the Commission normally does when considering significant changes to its policies and procedures, it has issued the proposed IFRS Roadmap specifically to solicit public comment on what's being proposed. Public comments will be reviewed by the Commissioners and SEC staff prior to the Commissioners making any future decisions regarding whether or not to adopt the Roadmap.

Second, the Roadmap, even if eventually adopted as proposed, would *not* represent a commitment by the SEC to require companies under its jurisdiction to use IFRS, either now or at any point in

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the future. What the Roadmap would do is buy the SEC time to think further about such a significant decision before actually making the decision. The amount of time the SEC wants? Three years. And the decision that the SEC intends to ultimately make on this matter is far from certain because it is predicated on the attainment of several “milestones” detailed in the proposed Roadmap.

Third, the SEC is in no hurry to require companies under its jurisdiction to use IFRS or any set of standards other than U.S. GAAP. Not only has the SEC proposed to postpone making such a decision until years from now, but any positive decision wouldn't take effect until three years after that and then probably only for the largest SEC registrants, with smaller registrants following in later years.

Fourth, the interim IFRS adoption option in the proposed Roadmap is highly restricted and, for many reasons, likely to be very unattractive to issuers (largely as a result of the estimated \$32 million cost for each issuer). Therefore, allowing certain issuers to adopt current IFRS has little chance of turning into a financial reporting free-for-all as some observers have claimed.

A Non-Switch Switch?

One helpful perspective on the SEC's proposed IFRS Roadmap may not be immediately obvious if you look at the Roadmap alone. As I emphasize in the *Convergence Guidebook for Corporate Financial Reporting* (Wiley, February 2009), if you work for a public U.S. company, you have much bigger and

more-immediate risks to manage than almost anything that's been proposed in the Roadmap. Specifically, you should be far more concerned about the profound and accelerating changes to U.S. GAAP that will result from the ongoing efforts of the Financial Accounting Standards Board (FASB) and International Accounting Standards Board

On February 20, 2009, Bruce Pounder will present *The Convergence Seminar*[™] in Malvern, Pa., a suburb of Philadelphia. This event is sponsored by IMA's Greater Philadelphia Chapter. For more information, visit <http://TheConvergenceSeminar.com>.

(IASB) to eliminate differences between U.S. GAAP and IFRS. Over the next three years, the Boards will eliminate differences between their respective sets of standards by developing common standards that will be very different from those found in either U.S. GAAP or IFRS today. But the ultimate implication with regard to the Roadmap is that any mandatory “switch” from U.S. GAAP to IFRS six years or more from now won't be a “big bang” event—it's more likely to be a nonevent. In fact, as described in the proposed Roadmap, the SEC

won't even consider requiring companies under its jurisdiction to use IFRS in the future unless and until continued progress toward the improvement and convergence of U.S. GAAP and IFRS is made.

Be Skeptical—Be Very Skeptical

As I often caution my clients and students, don't believe everything you read and hear about IFRS. Just last month, for example, online advertising for a webcast cosponsored by a major publisher and a major software vendor contained the assertion that “The Securities and Exchange Commission remains committed to its proposal to require publicly-traded U.S.-based firms to adopt international financial reporting standards (IFRS) within the next two years.” The sooner you learn to recognize such claptrap for what it is, the sooner you'll be making better decisions about IFRS for your company, your department, and your career.

A good rule of thumb is “When in doubt, go to the source documents.” The Federal Register version of the SEC's proposed Roadmap is freely available at <http://sec.gov/rules/proposed/2008/33-8982fr.pdf>. **SF**

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