SF bulletin

By Stephen Barlas, Deepak Butani, Alfred M. King, Kathy Williams

GOVERNMENT

New Chief Accountant

By Stephen Barlas, Editor

Securities & Exchange Commission Chair Mary Schapiro wiped away the "acting" prefix from acting-Chief Accountant Jim Kroeker's title at the end of August, meaning Kroeker will formally replace Conrad Hewitt, who left in January, as the SEC chief accountant. Kroeker has been with the SEC since February 2007 as deputy chief accountant. He gained a small measure of prominence late in 2008 when he was the key staffer in charge of writing what became a mammoth 250-page report on fair value accounting. Congress had mandated that the SEC produce the report as part of the October 2008 "bank bailout" bill, and Kroeker pulled the report together very quickly.

There had been considerable pressure on Schapiro to appoint a chief accountant from the investor community, a constituency that was considered underrepresented in the halls of the SEC based on many of the recommendations made by the SEC Advisory Committee on Improvements to Financial Reporting last year. Robert Pozen of MFS Investment Management headed that Committee. Despite Kroeker's lack of an "investor's background," Pozen likes the appointment. "Jim Kroeker did a good job in heading the staff support for our accounting committee, and he is an excellent choice for the SEC's chief accountant," Pozen says.

The business community is equally enthusiastic. Tom Quaadman, executive director of the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness, states, "Kroeker is fair, balanced, and well respected. He was seen as even-handed during the fair value debate. This was a critical appointment with many major issues looming over the financial reporting horizon."

In an interview with *Strategic Finance*, Kroeker described several of his priorities, including the importance of an investor focus in the evaluation of the need for improvement of standards highlighted by the economic crisis, continued progress toward convergence of Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) standards, and oversight of corporate implementation of the FASB's new standards on off-balance sheet accounting, which go into effect for calendar year filers starting January 1, 2010. The primary amendment to FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities (revised December 2003)—An Interpretation of ARB No. 51," relates how a company determines if it must consolidate a variable-interest entity. Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125," removes the concept of a qualifying "special-purpose entity" from U.S. Generally Accepted Accounting Principles (U.S. GAAP), changes the requirements for derecognizing financial assets, and requires additional disclosures about a transferor's continuing involvement in transferred financial assets.

> "We don't want convergence to devolve to the lowest common denominator," Kroeker stresses. "We want to align around a high-quality solution."

"We have seen challenges in the implementation of prior off-balance sheet improvements adopted by the

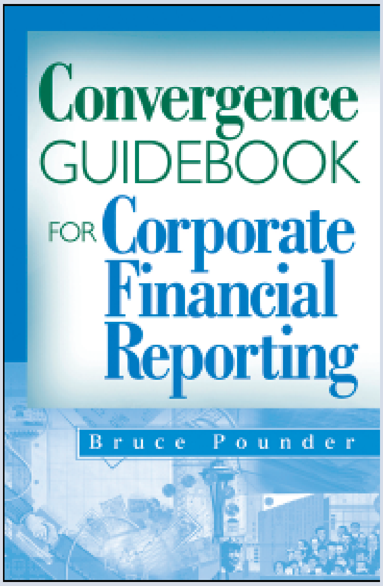
BOOKS

U.S. GAAP and IFRS Convergence

The cover of *Strategic Finance* states that its contents present material regarding "Leadership Strategies for Accounting and Finance Professionals." It's hard to think of a topic more relevant today to accounting and finance (as well as IT) managers than the convergence of U.S. Generally Accepted Accounting Principles (U.S. GAAP) with International Financial Reporting Standards (IFRS). In *Convergence Guidebook for Corporate Financial Reporting*, author Bruce Pounder (who writes the Financial Reporting column for this magazine and serves on IMA's Small Business Financial and Regulatory Affairs Committee) discusses in detail what will be involved in having U.S. GAAP converge with IFRS.

At a time when financial managers are dealing with a new FASB Codification (see p. 17 in this magazine issue), increased oversight by the Public Company Accounting Oversight Board (PCAOB), heightened audit committee involvement, and possible changes to the tax structure, many managers will want to postpone thinking about IFRS convergence when it isn't on the immediate horizon. In one word, DON'T. In the long run, putting things off will cost you more money, require more consultants, and create greater time pressure. Get a jump on your competitors and start now.

The transition from current U.S. GAAP to future converged standards is going



to be time-consuming and expensive. Shutting your eyes and hoping IFRS will go away isn't a rational response. Rather, it's absolutely incumbent on those responsible for corporate financial reporting to understand the issues.

In this excellent new book, the first of its kind, Pounder tackles the total subject of IFRS convergence from the perspective of U.S. financial managers. He neither argues for or against convergence—simply accepting at face value recent actions and published statements by both the Financial Accounting Standards Board (FASB) and Securities & Exchange Commission (SEC) that the United States is moving in this direction. To accomplish an optimum effort, Pounder tells you exactly what is going to be involved, what to do, and how to do it.

Pounder hasn't written a simplistic do-it-yourself, "convergence in one easy lesson" book. Instead, he lays out all the

Pounder's message is simple: GET STARTED NOW!

steps that must be followed to minimize the cost and disruption of any convergence project. He acknowledges that convergence projects are going to be both lengthy and expensive. In effect, Pounder helps readers understand what's really going to be involved and then lays out a number of necessary steps to carry that out. It's often difficult to sum up an entire 250-page book in one sentence, but in this case Pounder's message is simple: GET STARTED NOW!

With Pounder as a guide, IFRS convergence will still be a rocky road that most companies have to travel, but you won't lose your way or be diverted down false bunny trails. This book will pay for itself many times over if you simply take the time to read it. You will understand what is, and what is not, involved in convergence. Avoiding mistakes may not seem very glamorous, but the real economic payoff is going to be high. Don't miss this extremely valuable volume: Add it to your personal or corporate library.—Alfred M. King, CMA, CFM

FASB," Kroeker states. The Office of the Chief Accountant will be looking very carefully at implementation practices in 10-Qs arriving around April 2010 to make sure companies are implementing the standard with good judgment.

On convergence, Kroeker wants a high-quality standard and worries a little about pressure in the opposite direction, where American companies may press for some of the weaker aspects of the IASB standards while Europeans press for the weaker aspects of the FASB standards. "We don't want convergence to devolve to the lowest common denominator," he stresses. "We want to align around a high-quality solution." In the short run, he adds, the objective should be to make progress in projects in the Memorandum of Understanding signed by the FASB and the IASB.

Not a lot has been done at the SEC in the past year on the Pozen recommendations, a number of which focused on the SEC. Kroeker says, understandably, that the SEC has been diverted by last fall's economic crisis and the ensuing drive by the Obama administration and Congress to address financial industry regulatory reform. He does highlight the Pozen recommendation that the SEC issue a statement of policy "articulating how it evaluates the reasonableness of accounting judgments and include factors that it considers when making this evaluation." Kroeker stops short of saying the SEC will begin work on such a policy statement, but he explains that "if" the SEC goes down this road, the intention would be to contribute to higher-quality reporting, not establishing a safe harbor. Kroeker also noted that, regardless of any SEC action on the recommendation, it's simply common sense to consider the concepts highlighted by the Pozen Committee in reaching a judgment today.

GOVERNMENT

SEC Issues Guidance on FASB Codification

The new chief accountant's office has signaled that it will be initiating a rulemaking dedicated to revising specific references to specific standards under U.S. GAAP in the SEC's rules and staff guidance. That announcement was made sotto voce as part of the SEC's endorsement of the FASB's new *Accounting Standards Codification*™, which reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics. The SEC guidance issued in August both endorsed the Codification and at the same time warned preparers that the FASB Codification isn't the authoritative source for SEC rules nor does information in the FASB Codification on SEC rules affect how such content may be updated in the future.

NEWS

Is Information Overload Hurting Your Career?

By Kathy Williams

In today's constant barrage of electronic communications and sound bites, people's attention spans are shrinking, and this is beginning to damage their communications skills. In fact, 99% of business people surveyed recently said that attention spans are shorter today than three years ago and that this is having a detrimental effect on verbal communications skills in the workplace.

This was one of the findings of a survey of 400 business professionals by Connie Dieken, a leadership communication coach, Emmy® award-winning journalist, and author of the just-released book *Talk Less, Say More: 3 Habits to Influence Others and Make Things Happen.*

What's the leading cause of the declining skills? It's multitasking (such as checking e-mails and voice mails or texting during face-to-face communications), according to 93% of the respondents. The second biggest contributor, 54% said, is that it has become more difficult to break through the overwhelming clutter of information (Dieken has coined this communiclutter®) to convey messages that don't overload other people.

The major consequences of shrinking verbal skills, according to the respondents, are limited success in winning or increasing business (82%), weak relationships with colleagues and peers (72%), diminished ability to manage and motivate direct reports (69%), reduced potential to be promoted and to advance in career (57%), and less likelihood of being hired for a job (43%). Reasons why others fail to influence business people during conversations is because they don't convey their messages properly to reduce confusion and make it clear what they are saying, they don't connect with business people or provide information of value, and they don't convince the business people to take the actions they desire.

What skills do business people need to improve? They said they need to convince others to personally commit and take the actions they want, they need to convey their messages better so others know what they want and have to offer, and they need to improve how they connect with listeners to gain their attention. Respondents added that other business people fail to connect with them and manage their attention because they ramble or take too long to get to the point, they don't focus on others' needs, and they are too wrapped up in their own messages. Also, they don't use the right level of candor that invites sincere input and feedback, they interrupt or cut people off frequently, and they don't use others' preferred method of communication.

When asked "Why do other business people fail to convey their messages so you know what they want?" respondents said they overload them with too much information and don't frontload their messages (79%), they overrely on boring and text-filled PowerPoint presentations (48%), they don't use stories that would help illustrate their point (41%), and they rely too much on the spoken word and don't focus enough on visuals (29%).

So how can these situations be turned around? Dieken advises: "Improving communication skills in today's information-overload, attention-deficit, distraction-driven world boils down to three high-performance habits. They are to connect with others to engage and instantly capture their attention, convey and nail messages without overloading or confusing others, and convince others to take the action you want and feel good about it."

LETTERS

A Long Way to Go

I would like to second the opinions expressed by Thomas Buckoff and Abbie Gail Parham in their article on "Fraud in the Nonprofit Sector" in the June 2009 issue. I can attest to this as a CFO of a mid-sized not-for-profit and having worked most of my work life in this sector. Unfortunately, the high idealism that gives birth to a not-for-profit does not always trickle down to our world of checks and balances.

In my experience, the problems lie in the following areas:

- A general hesitancy in bringing about change around the existing control environment.
- Lengthy approval procedures, which often involve approvers who have little understanding of and background on the control and governance issues.
- A higher level of tolerance when perpetrators get caught, which makes it difficult to implement controls with vigor.
- Human and technology resources are always limited, and investing in an internal audit or control function is not the most important priority. This makes it difficult to attract the best talent.
- In reality, boards of directors hold very little power and generally let the chief executive run the agency, often with no accountability for [his/her] actions.

There are, of course, some very well run not-for-profits that can easily put some of the *Fortune* 500 companies to shame. The good thing is that with compliance standards becoming stringent, the outlook appears to be changing, and the benefits of strong internal controls are valued. But we have a long way to go.

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We welcome all opinions on articles and departments published in *Strategic Finance*. E-mail correspondence to Kathy Williams at kwilliams@imanet.org.