SF bulletin

By Stephen Barlas, Dallon Christensen, Brad Monterio

Republican Gains in Congress May Influence IFRS/GAAP Convergence

By Stephen Barlas

On October 29, 2010, Jim Kroeker, chief accountant of the Securities & Exchange Commission (SEC), put out the first progress report on the SEC convergence work plan for International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (GAAP). In and of itself, it was a no-notice development. But convergence may be the only SEC financial reporting decision that *will* be affected by the Republican takeover in the House of Representatives and the reduced Democrat majority in the Senate. Mary Schapiro, the SEC chair, has been saying the Commission will make a decision in 2011 on convergence, followed by a phase-in period. Smart money should be put on a significant convergence delay for three reasons. First, the SEC is swamped by rulemakings stemming from the Dodd-Frank overhaul. Second, business groups have all sorts of concerns about convergence, and the Republican tide washing over Congress means that business concerns will echo more loudly in the halls of the Capitol. Third, the Financial Accounting Standards Board (FASB) is looking for a new chair and is expanding its Board from five to seven members. That has slowed the FASB's convergence work. But the Republican political tide and its pro-business implications may be the biggest of the three factors. Look for the issue of "costs to business" brought about from either convergence of IFRS and GAAP or a requirement that U.S. companies use IFRS to come to the fore. Tom Quaadman, vice president of the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness, says the Chamber supports convergence. "But the setting of artificial deadlines is exactly the wrong way to go," he says. He thinks there is too much at stake for American businesses for the SEC to rush to meet a June 2011 deadline. "There are a lot of adverse consequences if this is done too quickly." He points to a substitution of FIFO for LIFO accounting as an example. "That switch could cost U.S. businesses $150 billion," he emphasizes. "The American business community cannot afford that now." He adds that changes to the FASB leasing standard could hurt the ability of American companies to raise capital.

Even IMA®, which generally supports convergence, has voiced concerns about the costs of convergence through its Financial Reporting Committee. Chair Allan Cohen says, "The adoption of IFRS into the financial reporting system in the U.S. could have a very significant impact on the various types of contractual arrangements such as financing agreements, trust indentures, merger agreements, executive employment agreements, stock incentive plans, leases, franchise agreements, royalty agreements, and preferred stock designations."

SEC Proposes New MD&A Disclosure

The SEC has tossed out a proposal to require disclosure of information about intra-period short-term borrowings, which is now required only for some financial companies. The SEC wants the information from all companies who file annual and quarterly reports and proxies. That means 10,380 companies, according to the Commission's estimate. They would have to provide the data in the Management Discussion and Analysis (MD&A) in tabular form, coupled with a discussion and analysis to provide context for the quantitative data. Accounting issues come into play here. Because of their short-term nature, a com-

continued on p. 24

BOOKS

Disaster Planning

Disasters are often fatal for small businesses, yet studies find that a large majority of small businesses don't have a plan in place to minimize the damage from disasters. Executive teams need to identify the key issues and questions of how to maintain a thriving business in the face of disaster. In *Prepare for the Worst, Plan for the Best*, author Donna Childs blends a broad range of corporate, small business, and personal experiences into a book that any business owner or manager can use to ask key questions about their company's ability to continue operations after a disaster.

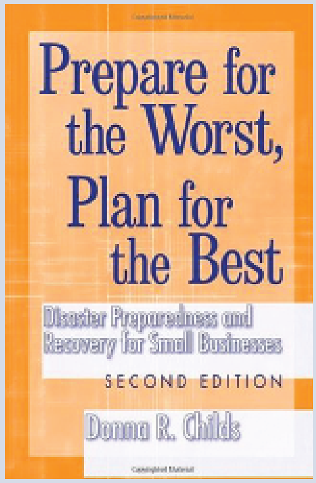
Childs presents a clear roadmap and lots of advice on how to effectively implement a recovery plan. In Chapter 2, she highlights the three key components of any successful recovery plan roadmap:

Prepare: Determine which company assets are critical for ongoing work, and develop a plan to replace those assets and any lost income from the disaster.

Respond: Execute the plan you have already prepared, including protecting the information technology infrastructure.

Recover: Restore your company's operations, and instill confidence in your customers and suppliers.

Childs focuses much of the book on preparing the recovery plan. Along with the expected planning items related to financial liquidity and information technology, she highlights other important parts of a well-conceived plan. For example, Chapter 5 covers a variety of basic safety procedures surrounding events such as fires, floods, and terrorism. One simple but overlooked detail, for example, is to have a packed bag that you can simply take with you in the event of evacuation. Other chapters in the Prepare section deal with handling business mail and taking care of elderly and injured employees, issues that many executives wouldn't think to consider as part of an overall recovery plan.



The Respond chapter on IT continuity is short and focuses on how to react to different situations such as equipment failure or fire. The chapter on financial liquidity is outstanding. Childs demonstrates her experience and ability in the insurance industry by going into excellent detail on a wide variety of financial and insurance strategies to reduce the risk of loss and provide sufficient liquidity during the recovery. The analysis of payroll record retention is an excellent reference for any employer looking to reduce the risk of personal liability related to missed payroll responsibilities. Tips on effectively communicating with your company's stakeholders complete the section. Childs focuses the Recovery section on ensuring ongoing IT operations and continuing to work with insurance providers to maintain financial liquidity.

One simple but overlooked detail is to have a packed bag that you can simply take with you in the event of evacuation.

Prepare for the Worst, Plan for the Best isn't designed to be a detailed, step-by-step implementation guide for constructing a good recovery plan, but I found it to be an excellent primer for effective planning and a handy strategic resource. Childs maintains a website and blog (www.pertinentperils.com) to update much of the content in her book, and they make good sources for those looking for more detail and analysis on specific recovery plan questions. As with many other aspects of business, excellent planning is the most critical step to preparing employees for negative events.—Dallon Christensen, CMA, CFM, CPA, CITP, dc@dallonc.com

SF bulletin

continued from p. 22

pany's use of short-term financing—repurchase agreements, which caused some difficulties during the recent recession (see Lehman and Bear Stearns)—seem to be a major concern. Such arrangements can fluctuate materially during a reporting period, which means that presentation of period-end amounts of short-term borrowings alone may not be indicative of that company's funding needs or activities during the period.

Registrants would be required to provide in the MD&A disclosure (1) the amount in each specified category of short-term borrowings at the end of the reporting period and the weighted average interest rate on those borrowings; (2) the average amount in each specified category of short-term borrowings for the reporting period and the weighted average interest rate on those borrowings; (3) for registrants meeting the proposed definition of "financial company," the maximum daily amount of each specified category of short-term borrowings during the reporting period; and (4) for all other registrants, the maximum month-end amount of each specified category short-term borrowings during the reporting period. See www.sec.gov/rules/proposed/2010/33-9143.pdf for more information.

Peter J. Chepucavage, executive director and general counsel of Plexus Consulting LLC, calls the disclosure a positive development but says the SEC should take steps to ensure that disclosure on short-term borrowings won't be abused by short sellers. That happened during the Lehman and Bear meltdowns. "If Bear and Lehman could not defend against such rumors, how can small firms defend against these tactics?" Chepucavage asks.

Interpretative Guidance

But wait...as they say in infomercials...there's more! The SEC has issued interpretative guidance applicable to liquidity trends in *current* MD&A filings. The staff is highlighting some issues that might not ordinarily be considered "disclosure worthy"—things such as difficulties accessing the debt markets, reliance on commercial paper or other short-term financing arrangements, maturity mismatches between borrowing sources and the assets funded by those sources, changes in terms requested by counterparties, changes in the valuation of collateral, and counterparty risk. Repurchase agreements also come up in this separate guidance, as do off-balance-sheet arrangements, another 2008-2009 recession bugaboo. In an October 6 meeting touching on a number of issues, SEC Chair Schapiro told CEOs from Wall Street companies that, "The interpretive release is a reminder that companies should not use financing structures or disclosure techniques to mask a company's true debt levels" (see www.sec.gov/rules/interp/2010/33-9144.pdf).

Regulatory Mandates for XBRL Expand Globally

By Brad Monterio

XBRL International, Inc. (XII), the global standard-setting body of the XBRL business reporting standard, held its most recent international conference October 19-21, 2010, in Beijing, China, Several IMA® XBRL Committee members attended, as well as more than 700 delegates that included11 vice ministers from various Chinese government agencies, senior executives, accountants, attorneys, technology vendors, analysts, bankers, and consultants. IMA is a founder of the XBRL standard and a member of XII.

The International Steering Committee (ISC), XII's governing body, elected new leaders during the conference. Arleen Thomas, senior vice president of the AICPA, was elected chair, and David van den Ende, director with Deloitte Netherlands, was elected vice chair. Both serve on the XII board of directors as well. Five at-large members also were elected: Li Dan, China Ministry of Finance; John Turner, CoreFiling; Caetano Nobre, MZ Consult S.A.; Shiping Liu, Global Business Intelligence Consulting Corporation (GBICC); and Avinash Chander, Institute of Chartered Accountants of India (ICAI).

In addition, several significant announcements were made during the event, including expanded regulatory mandates for the use of XBRL and a new technical working group designed to stimulate development of more software applications around the world. This working group is the first outcome of XII's recently published *Preserve. Promote. Participate. Moving XBRL Forward*, a core vision document that outlines six strategic initiatives to continue the momentum of the XBRL standard.

CHINA: The China Ministry of Finance released its General Purpose XBRL Taxonomy that requires the use of XBRL across several Chinese Ministries, including those responsible for taxation, audit, securities, banking, insurance, information technology, and others. This represents the largest implementation of the XBRL standard in the world to date. Companies of all types, including listed and privately held, banks, insurance providers, mutual fund companies, and more, will be required to file tax and financial information to the appropriate oversight bodies. In 2005, China became the first country to mandate XBRL for listed companies on both the Shanghai and Shenzhen stock exchanges. It also already has a requirement for mutual funds to file reports to the securities regulator.

IRELAND: Revenue Commissioners Ireland has announced that, as part of mandatory e-filing of tax information, it's at the preliminary stages of building an XBRL-enabled filing platform that private and listed companies will use to file their taxes. The U.K., Germany, Denmark, China, and others are now using XBRL for tax reporting requirements for a few million private and listed companies. Add this to the millions of companies using XBRL to file annual accounts across Europe, as well as listed companies in the U.S., Japan, and China, and XBRL is now used to report information from companies representing more than 75% of the world's market capitalization.

Working with XBRL for more than 11 years, I'm excited to see the explosive growth in its use around the world. IMA members, whether at privately held or publicly listed companies, will be impacted by XBRL. Whether they use it for external reporting to tax authorities, banking institutions, or securities commissioners, or for internal performance measurement and decision making, they will probably be using it soon, even if they don't realize it. Software tools will include built-in XBRL capabilities that members won't necessarily realize are there.

Along those lines, XII also announced the formation of a technical working group of software vendors from around the world that will come together in January 2011 to design an abstract model for XBRL software development. This is a strategic initiative to catalyze development of more XBRL-enabled software solutions by lowering product development hurdles for software vendors and providing software engineers with a consistent blueprint to develop their own XBRL-enabled tools. This will widen IMA members' choices as they seek easy-to-use tools for their own analysis and/or creation of XBRL-tagged data for decision making, performance measurement, business intelligence, and reporting.

Participants in the abstract modeling group span a wide cross section of the software vendor community, including the largest global enterprise resource planning (ERP) vendors, as well as specialty solution providers, accounting firms, and regulatory bodies. Without a standard XBRL abstract model, software architects, engineers, and developers must create their own proprietary models—a costly process that's prone to interoperability issues because other vendors may not formulate models that are in complete agreement. A standard abstract model leads to a more unified understanding of the XBRL technical specification and can potentially lower development costs and remove barriers to entry for software vendors—another good thing for IMA members.

It's difficult to realize the benefits of XBRL to your company if you don't have the proper analytical tools to use all the data that's being enabled through the standard. XII's abstract modeling group will stimulate the development of a broader set of tools that IMA members can use from the vendors they prefer. Business intelligence tools are increasingly in demand by many companies today, so this XII effort will lay the foundation for these types of solutions to be created more easily.

Brad Monterio is chair of the IMA XBRL Committee. You can reach him at bmonterio@colcomgroup.com.