

Towards a Global Reporting System Where are We and Where are We Going?

AICPA National Conference on SEC and PCAOB Reporting Developments

Robert H. Herz
Chairman, FASB
December 10, 2007

The views expressed in this presentation are my own and do not necessarily represent official positions of the Financial Accounting Standards Board. Official positions of the FASB Board are arrived at only after extensive due process and deliberations.



Why the Movement Towards Global Financial Reporting?

- Continuing (rapid) globalization of capital markets, cross-border investing and capital raising
- Multiple accounting and reporting regimes add costs and complexity for:
 - Investors
 - Companies
 - Others (Regulators, Auditors, Educators)
- “Pax Americana” in reporting highly unlikely
- But to be truly global, must include the U.S.



But What Exactly is the End Goal?

- **“Common,” “high-quality” financial reporting by listed companies (perhaps others) around the world**



What are the Key Elements of Such a System?

- Single set of high-quality accounting standards established by a single, independent standard setter
- Consistency in application and interpretation
- Common disclosures, MD&A
- Common high-quality auditing standards and practices
- Common approach to regulatory review and enforcement
- Education and training of market participants
- Common delivery mechanisms (e.g., XBRL)
- Common approach to corporate governance and legal frameworks around reporting would also be nice (but not likely soon)



Where are we Now?

- Most of the focus has been on developing a global set of accounting standards
 - Spread of IFRS around the world
 - FASB – IASB Convergence Program
 - SEC drops the reconciliation requirement for foreign filers that use full IFRS and explores permitting U.S. registrants to use IFRS
- Less focus (but some progress) on common auditing standards and practices (IAASB, Transnational Auditors Committee, PIOB) and cooperative efforts between securities regulators and PCAOB and international counterparts



Where are we Now? (cont'd)

- But even in convergence of accounting standards, significant issues exist:
 - “As adopted” versions of IFRS
 - “National flavors” of IFRS due to inconsistent application
 - Funding, staffing, and governance of IASB
 - Slow pace of FASB – IASB convergence with some non-converged areas in “converged” standards and each Board developing some “divergent” standards to address pressing issues on a timely basis
 - Numerous differences between U.S. GAAP and IFRS that can result in significant differences in reported numbers
 - Improvements needed in both U.S. GAAP and IFRS (per investors, SEC, FASB – IASB MOU)
 - Can U.S. handle a more “principles-based” system with less detailed guidance and fewer specialized industry standards?
 - Will a U.S. version of IFRS emerge?



So What's Needed to Achieve a Global Reporting System?

- Internationally?
- In U.S.?



What's Needed Internationally?

- Address national/regional endorsement mechanisms that produce “as adopted” versions of IFRS
- More consistent application of IFRS to avoid “national flavors”
- IASB to fill in major gaps in IFRS (e.g., insurance, extractive industries, rate regulation?)
- Improvements in major areas (e.g., per FASB – IASB MOU)
- Strengthening IASB as a global standard setter
 - Funding — ongoing efforts by IASC Foundation Trustees
 - Staffing
 - Governance/Oversight — proposed regulatory “monitoring body”
 - Structure? (e.g., having multiple locations?)



What's Needed Internationally? (cont'd)

- Converge and standardize other elements of corporate reporting package (disclosures, MD&A)
- Improve and converge global auditing standards and practices and oversight of auditors
- Improve coordination of global regulatory review and enforcement



So What's Needed in the U.S?

- Decide where we want to go:
 - Much of the rest of the world has declared — IFRS
 - End game in U.S. not clear right now – could be to:
 1. “Mutual recognition” for foreign filers only
 - a. With continued convergence over many years
 - b. Without convergence (perhaps competition between standards)
 2. Two-GAAP system for U.S. registrants
 - a. With continued convergence over many years
 - b. Without convergence (perhaps competition between standards)
 3. A single set of high-quality international accounting standards
- Each path has very different implications for standard setters, preparers, auditors, investors, regulators, educators and on overall system costs and complexity



So What's Needed in the U.S?

Would some U.S. Companies Choose to Use IFRS?

- Probably, if perceived benefits exceed perceived costs
- This might be so for U.S. companies:
 - With a majority of operations in countries that require IFRS
 - Whose principal competitors use IFRS
 - That prefer the IFRS treatment(s) in key area(s)

BUT

- A two-GAAP system for U.S. registrants would:
 - Add complexity and reduce comparability for many users
 - Add to overall cost and complexity of our (already complex) U.S. reporting system

Note that convergence can obviate or reduce these added costs and complexity



So What's Needed in the U.S (cont'd)?

- If we are to either broadly permit and/or eventually require IFRS in U.S., we need a national plan with a “blueprint”
 - Other countries develop plans before moving to IFRS
 - U.S. plan needs to specify required action steps and related milestones and target dates



So What's Needed in the U.S? (cont'd)

- Action steps would cover such things as:
 - Continued convergence between and improvement in U.S. GAAP and IFRS (e.g., all or some of the projects in FASB – IASB MOU)
 - If to a single set of standards, how to eliminate other areas of difference between U.S. GAAP and IFRS
 - Changes in education, training, CPA exam, etc.
 - Changes in contracts, regulatory requirements and state laws tied to U.S. GAAP
 - Systems changes, 404 control changes and data gathering by companies
 - Evaluating related SEC accounting and disclosure requirements (including what's in financials vs. other parts of filings)
 - Dealing with “special issues” like LIFO



So What's Needed in the U.S? (cont'd)

- Assessing impact on and approach to reporting by private companies and not-for-profit entities (different GAAP or “vertically integrated”?)
- Impact on XBRL development and use
- Cultural, behavioral, and structural changes in U.S. to better handle a more “principles-based” system with less detailed guidance
- Determining role of FASB and SEC in a global system
- Target date or date(s) for adoption of IFRS
 - Perhaps staggered to allow for learning and capacity issues?
 - Should early adoption be permitted (and, if so, by any registrant or qualified)?
- And many more issues . . .



OK, So Where Should We Head?

Possible endgames include:

1. “Mutual recognition” only
2. “Mutual recognition” plus “two-GAAP” system for U.S. registrants
3. A single set of high-quality international standards for registrants (and perhaps others)



FASB and FAF Support Option 3 (single set of high-quality international standards)

- Preferred by investors — enhances comparability, reduces analytical complexity
- Consistent with continuing globalization of capital markets
- Would bring U.S. into alignment with most other international capital markets (Europe, Australia, China, Russia, Japan, Korea, Canada, India, etc.)
- We advocate a well planned “improve and adopt” approach to transitioning U.S. to IFRS
 - Improvement through continued joint projects between IASB and FASB in major areas
 - Directly adopt other parts of IFRS
- Helps avoid/reduce added costs and complexity of having a two – GAAP system for an extended period



FASB and FAF Support Option 3 (single set of high-quality international standards) (cont'd)

If so,

1. International cooperation is needed to ensure IASB is independent, strong, and sustainable, IFRS needs further improvement and “as adopted” versions and “national flavors” of IFRS must be avoided.
2. We need a U.S. National Plan with a “blueprint” that includes an “improve and adopt” approach to transitioning to IFRS in an effective and orderly manner.



Some Final Thoughts

- A threshold issue for U.S. reporting system
- SEC Advisory Committee on Improvements to Financial Reporting (CIFIIR) will be looking at this
- For more information, go to www.sec.gov and www.fasb.org

