The SEC recently issued a staff paper entitled, “Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers.” It lays out a number of alternatives for implementing IFRS in this country, but what’s the point? Let’s just grant immunity to CEOs and CFOs who lie in their financial reports and quit wasting resources that anything else will be achieved.

This drive toward IFRS has been amazing because its support consists primarily of vacuous assertions. Advocates claim that principles are better than rules, but nobody has been able to differentiate between principles and rules. If firms should recognize all their liabilities on the balance sheet, is that a rule or a principle? (And if a principle, why do we still suffer the horrors of off-balance sheet debt in countries that have already adopted IFRS?)

Proponents of IFRS also argue that uniformity across the world would reduce preparer and investor costs and it would increase transparency. But, the spread of IFRS has been filled with carve-outs, special deals, exceptions, and time-freezes; in short, countries are adopting their own national brands of IFRS. There is significantly less uniformity across IFRS-adopters than the promoters wish to admit. This argument is bunk.

As business enterprises adopt IFRS, they adopt different accounting rules and they implement them in diverse ways, even when they present the financial report on a good faith basis. Even now it has become difficult to compare some European firms with others even in the same industry because of the tremendous differences across their accounting tools.

But worst of all, IFRS is an elixir for unscrupulous managers. These imps will be able to skim assets from their firms and cover their tracks with such ease that critics could compare it to the artistry of Humphrey Bogart and Bette Davis. The world of accounting and finance would give way to theater.

It is not enough for principles to be better than rules. Principles-based accounting produces value only when managers and their advisers are principled men and women. Unfortunately, the past decade contradicts such a presumption. Yes, there are some honest business people, so we do not
wish to indict everybody, but there are far too many dishonest CEOs and dishonest CFOs and dishonest advisers to dismiss this point. IFRS that are supposedly principles-based will not solve the fundamental accounting problems of society until and unless the vast number of managers become principled individuals. Sadly, hundreds and hundreds of restatements and many SEC litigation releases and scores of lawsuits and plenty of criminal cases prove that society does not have enough principled managers to make it work.

Today’s accounting leaders do not remember much from accounting history. Before the Accounting Principles Board, corporate managers faced mostly toothless or ambiguous accounting rules, if they encountered any accounting or disclosure rules. The great charge that began in the 1960s was the goal to reduce manager’s accounting choices in order to reduce the gaming in corporate reports. This goal began in the 1960s, but did not eliminate accounting scandals as attested to by a variety of cases, including National Student Marketing and Equity Funding. But the correct deduction is not to allow managers a free hand in manipulating the accounting; rather, it demonstrated that reducing managerial accounting choices was not sufficient to improve accounting. Other things would be required, such as an improvement in corporate governance.

So here we are with our so-called leaders in DC and in Connecticut escorting us down this primrose path. If they continue to inflict IFRS on the American investment community, they will find more thorns than flowers. IFRS truly is a charade and the only ones who will benefit are those with criminal intent.

This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.