

What If IFRS Replaced GAAP?

The SEC is asking for your best doomsday and celebratory scenarios in response to a 72-question concept release on whether U.S. companies should be allowed to use International Financial Reporting Standards instead of GAAP.

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The Securities and Exchange Commission is dabbling in the realm of speculation. At least for now, the questions from the five commissioners regarding the possibility of allowing U.S. companies to file financial statements using International Financial Reporting Standards remain just that: a possibility.

Still, the questions posed in their most recent concept release raise some interesting scenarios. Would allowing IFRS lead to the end of the ongoing convergence project to align international standards and U.S. generally accepted accounting principles? When would most U.S. companies, their auditors, and investors be ready to understand IFRS? And could U.S. GAAP eventually be kicked to the curb?

In addition, the SEC presents another weighty query — could there come a time when it would be appropriate for the commission to require all U.S. issuers to report their financials using IFRS?

Those are just some of the 72 questions up for debate in the [commissioners' 42-page release](#), which was posted on the SEC website earlier this week. Over the next three months, the SEC will collect all the fears and hopes of constituents who submit comments on what it means if the SEC allows U.S. companies to file financial results using IFRS, rather than U.S. GAAP.

One of those fears is whether the allowance would hinder the joint IFRS/GAAP project, a concern voiced by Commissioner Annette Nazareth when [the regulatory body unanimously agreed to publish the release](#). "I hope these actions will not halt or slow the convergence process," she said at the time. "We need high-quality global accounting standards."

Keeping that worry in mind, the commissioners affirm their support of the Financial Accounting Standards Board's and International Accounting Standards Board's work over the past five years to eliminate the differences between the two sets of standards. Nevertheless, the SEC is asking potential commentators if they're happy with the progress made so far. And commissioners wonder if market participants would even have an incentive to support convergence if IFRS were allowed in the U.S.

The SEC digs deeper into the convergence project asking constituents to speculate on what would happen if standard-setters got stuck at a crossroads. If "the IASB and FASB were to reach substantially different conclusions in the convergence projects, what actions, if any, would the commission need to take?" the SEC asks in its release.

The regulator also questions its own role in the future of financial reporting, asking market participants to consider that convergence may mean that an overseas standard-setter could one day rule accounting in the U.S. Indeed, the release asks for comment on "the nature of [the SEC's] relationship with IASB, a relationship that is different and less direct than our oversight of FASB," and how it might affect the commission's responsibilities

under the U.S. securities laws. Currently, the SEC staff acts solely as an observer at meetings of the IASB's advisory group. That's a far cry from its current status as the oversight body of FASB and its indirect control over the standard-setter's budget.

In its concept release, the SEC also alludes to potential complications that IFRS use could bring to U.S. companies. For instance, U.S. corporations may be inundated with queries and comments from international securities regulators that are trying to ferret out misinterpretations of a standard. "U.S. issuers with listing in multiple securities markets could find more than one securities regulator commenting upon their IFRS financial statements," the SEC says. "Because it is likely that not everyone will apply accounting standards consistently or appropriately, securities regulators are developing infrastructure to identify and address the application of IFRS globally," the commission added.

To be sure, the use of IFRS is widespread outside of the United States. Almost 100 countries require or allow its use, according to the SEC, and other countries that may have been slow to adopt the standard, are still keen to follow suit. For example, Canada and Israel intend to adopt IFRS as their national accounting standard.

For the SEC's part, the commission [has proposed eliminating the GAAP-reconciliation requirements](#) it has imposed on foreign companies by 2009. SEC chairman Christopher Cox has praised the proposal as a way to maintain capital formation in the U.S. and as a step toward a single set of globally accepted accounting standards. Proponents of the proposal say it will lead to another inevitable proposal — the right for U.S. companies to choose between U.S. GAAP and IFRS.

Since the SEC put out the reconciliation-elimination proposal for a 75-day comment period, [seven letters have been posted](#), most of them against the idea. The more principles-based standards under IFRS are not the same quality as GAAP, according to William Craven, who identifies himself as a certified public accountant. The standards lack an "effective enforcement mechanism to ensure compliance," he adds.

On the other hand, a Canadian CFO whose company has had to reconcile financial statements with U.S. GAAP, praised the proposal. Doing so will help "level the playing field between U.S. and non-U.S. issuers who access the U.S. capital markets," wrote Greg Taylor, vice president and finance chief at Toronto-based Fairfax, a financial services holding company listed on the New York Stock Exchange.

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