



U.S. Securities and Exchange Commission

Speech by SEC Staff: Remarks before the 2007 AICPA National Conference on Current SEC and PCAOB Developments

by

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Introduction

Good morning. I appreciate the opportunity to speak to you today. Despite three years in my role as a Deputy Chief Accountant I realize I have not yet met everyone in attendance, but I am working on it. So, during the course of this conference please feel free to introduce yourself if we have not met. And, if I don't see you here I may do so during the course of my travels. This could occur overseas if you travel internationally every few weeks as I do. It could also occur in the U.S. because I now see more and more opportunities for my participation at events and activities here.

The reasons for these additional participation opportunities are, I think, directly attributable to the SEC's action this summer to issue a Concept Release and thus open the dialogue among the U.S. capital market participants about the possible use of International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) by U.S. issuers to prepare their financial statements for purposes of filings with the Commission. As you know, I do a little work in this area. As this dialogue continues at seminars, events and so forth, I and the others on the SEC staff welcome the opportunity to listen, learn and contribute what we can.

Today's Remarks

In my remarks today I will talk about my reactions to some of the points made in some of the approximately 80 comment letters the Commission has received on its Concept Release. Thus my remarks will be sort of my feedback on your feedback, if you will, in the form of some questions that

came to mind in reading your points.

My remarks are by no means meant to be exhaustive, or if I do not mention something to imply that I have dismissed it; rather, they are just to share in the span of the few minutes I have with you today some initial points that came to mind. I expect to learn much more about this subject at our upcoming Roundtables, so for me this is definitely a work-in-progress.

And lastly, while questions are not indeed “views”, they nonetheless fall within the disclaimer that the remarks I make today are my own, and do not represent the views, or in this case the questions, of the Commission, the Commissioners or other members of the Commissions’ staff.

My Feedback

Let me organize my feedback around the following three points:

- First, the overall premise of the U.S. capital markets being part of the move to globally accepted accounting standards, beyond the Commission’s recent action to allow IFRS reporting by its foreign private issuers;
- Second, how ready investors and U.S. issuers find themselves with respect to the U.S. capital markets being further part of this move to IFRS; and
- Third, how, if it were to move ahead in this area, the Commission could select a strategy that best balances the needs of investors and U.S. issuers while at the same time provides the right incentives for the accounting standard setting work.

Now, let me offer some feedback on my first point, the overall premise.

Overall Premise

Commenters were very much in favor of the premise of globally accepted accounting standards, and the participation of the U.S. issuer and investor element of the U.S. capital markets in that move. Some commenters specifically noted that they felt it was commendable and very appropriate for the Commission to stimulate the dialogue on this matter at this time, but no one went so far as to suggest that any of us deserved a raise!

My feedback to the fact that commenters were very much in favor of the premise is merely to say that, in some respects, this is amazing. I say this because if the Commission had floated this IFRS prospect in even the not too distant past, I suspect its constituents would have analogized to physics and labeled the notion of globally accepted accounting standards as like a “fifth dimension.” In physics, a fifth dimension is a hypothetical extra dimension beyond the usual dimensions of space and time, which may or may not even exist. Thus, a set of truly globally accepted accounting standards could have

in the past been seen as somewhat of a “fifth dimension” because it was beyond the usual and visible dimensions of national sets of generally accepted accounting principles and therefore might or might not ever be able to exist.

Now, let me offer some feedback on my second point, readiness.

Capital Market Readiness

In terms of readiness for the possibility of any form of IFRS reporting by U.S. issuers, I came away thinking investors and issuers fall broadly into the following respective camps. For investors, the three camps are:

- Those who endeavor to understand accounting principles and have some familiarity with IFRS at this time;
- Those who endeavor to understand accounting principles and who do not have much familiarity with IFRS at this time; and
- Those who do not endeavor to understand accounting principles but rather invest with the assistance of others, for example, through a mutual fund.

For U.S. issuers, the three camps are:

- Those who already prepare full audited IFRS financial statements in addition to preparing U.S. GAAP financial statements because they have overseas reporting obligations to their parent entity;
- Those who do not already prepare IFRS financial statements but think they might have net incentives to do so after weighing the opportunity to streamline their worldwide financial reporting onto one system versus the effect of any difference in their cost of capital under IFRS reporting; and
- Those who do not already prepare IFRS financial statements and cannot see that in the foreseeable future they would have incentives to do so upon weighing the same preparation cost versus cost of capital factors.

Assuming for the sake of conversation that these investor and issuer groupings make some sense, then my feedback is that these different states of readiness would create a policy situation that is analogous to that faced by school administrators. School administrators always have to decide whether to move all students through each subject matter at the same pace or whether to create different “tracks” in each subject area so that students that are more ready and less ready in each area can proceed, each at their own pace.

By comparison, the current convergence route to align U.S. GAAP and IFRS

reporting effectively moves all investors and issuers toward international standards at the same pace because they all understand and apply changes to U.S. GAAP resulting from the convergence work at the same time. However, as I have noted, some investors and some issuers could be more ready than others to work with and prepare IFRS financial statements prior to the completion of convergence. This thus begs the policy question of whether it would be better to create “tracks” into which investors and issuers would naturally fall based upon their IFRS readiness. So-called “tracks” would be the natural result, I think, of providing an option but not a requirement for IFRS reporting by U.S. issuers. On the one hand, the “track” outcome may seem appealing because it plays to everyone’s natural strengths and optimal position, but on the other hand—just like in an academic situation—it can be a more complex scenario to keep track of in terms of who is where. And let’s not forget the effect on the “curriculum writers”, the standard setters. How do their incentives change, if at all, under a “tracks” versus a one group approach? We will not solve this today, remember, I am here to ask questions.

I realize that there are other associated capital market participants—educators, intermediaries, auditors, and so forth—for whom readiness considerations were also raised by commenters. Only in the interest of time—not lack of importance—will I not provide any feedback on those points.

Now, let me offer some feedback on my third point, best strategy.

Best Strategy

By the term “best strategy” I mean the best balance between staying with the current convergence program as the vehicle by which the financial reporting of U.S. issuers is moved to align with reporting under IFRS, versus taking the approach discussed in the Concept Release which is effectively to provide a “passing lane”, if you will, for those U.S. issuers who would like to move their financial reporting out of the current “convergence lane” and thus bypass the remainder of the current standard-by-standard convergence work by moving sooner, and all at once, to IFRS reporting.

Commenters to the Concept Release provided fundamentally two reactions to this idea of adding a voluntary passing lane route to IFRS reporting; those reactions were “yes” and “no.” But that oversimplifies it. I could actually identify upwards of ten different iterations of these yes and no views.

On the “yes” side of the responses, commenters’ views differed on whether the provision of a passing lane should be permanent, meaning a perpetual option to elect IFRS reporting, versus temporary, meaning an option for a period of time or until event(s) occur at which point any issuers remaining in today’s existing convergence lane would move to the passing lane. Within the permanent and temporary ideas commenters’ views also seemed to vary as to whether to make any changes to the convergence lane while a passing lane was open. Changes would constitute some improvements to the current convergence approach to give those traveling in the convergence lane a more

effective ride.

On the “no” side of the responses, commenters views differed on whether “no” to adding a passing lane meant continuing with only a convergence lane or instead adding a new “detour lane” in which all issuers are required to be rerouted for a required transition to IFRS reporting. If solely a convergence lane is used, there were, again, varying views as to whether any changes should be made so that traveling in it gives, in the commenters’ views, a more effective ride. There were also varying opinions as to what, if anything should be done with the current convergence lane if a detour lane to required IFRS reporting were added.

Needless to say, my summary can only give you a flavor for the fundamental points made by commenters, without even addressing why commenters saw it as they did. One question I will note, however, is that a fundamental question embedded among these various ideas is how much of a market-based approach, as is more the case with the optional passing lane idea, versus a regulatory-based approach, as is more the case with the mandatory detour lane idea, is the optimal anchor point for this type of a policy question. Again, we will not solve this today.

Closing

Let me close my remarks by noting that earlier I mentioned the physics notion of a “fifth dimension.” Many of you, at least over a certain age, will also remember that there is a pop culture version of the Fifth Dimension; that is, the 1970’s singing group by that name that featured, among others, Marilyn McCoo and Billy Davis, Jr. And while the physics notion of the fifth dimension has the connection to globally accepted accounting standards that I cited earlier, I think the pop culture notion of the Fifth Dimension has a connection too. For example, the premise of moving away from working with two sets of accounting standards—both national and international—to solely international standards could be summed up in the Fifth Dimension song entitled, “One Less Bell to Answer.” And if I don’t handle these global accounting standards policy matters with aplomb, I will be echoing their song entitled “Last Night, I Didn’t Get to Sleep at All.” However, perhaps the Fifth Dimension’s most famous song of all is the one from 1969 entitled “Aquarius”, which begins:

When the moon is in the seventh house,
And Jupiter aligns with Mars,
Then peace will guide the planets,
And love will steer the stars,
This is the dawning of the Age of Aquarius

While let me be clear that I am not seeking this Aquarius level of nirvana in my thinking about the pursuit of globally accepted accounting standards, you have to admit those are some great lyrics.

Thank you very much for your attention.

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