

FASB: TAKING THE LONG-TERM VIEW

FASB Chairman Robert H. Herz spoke at the Financial Executives International (FEI) Global Financial Reporting Convergence Conference in New York City on September 28, 2007. At a panel discussion and in a separate question-and-answer session with members of the media, he spoke at length about international convergence and other current issues involving accounting standards. CPA Journal Managing Editor Tom Morris was present, and the following is taken from those discussions.

Standards and Convergence

FASB and the AICPA have initiated a joint project to examine the feasibility of different standards for private companies. What is the status of that project? What has FASB's involvement been, and what kind of input has FASB given?

Robert H. Herz: FASB and the AICPA created a Private Company Financial Reporting Committee (PCFRC; www.pcfrc.org) in December 2006, chaired by Judith H. O'Dell, CPA, CVA [a principal and CFO of a family-owned enterprise engaged in real estate development, construction, and hotel and restaurant business], and including 12 other members. Its mission isn't to

create new standards, but to recommend to FASB whether there should be differences in the accounting and reporting standards for private companies based on different user needs and/or cost-benefit considerations. The PCFRC has already met several times and has made some very useful recommendations to us on the topic of subsequent events, and has also asked us to consider a deferral of FIN 48 [FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes for Private Companies*].

Regarding GAAP/IFRS convergence, do you believe your joint project with the IASB on lease accounting will result in a fairer representation of a company's financial position to investors?

Herz: Yes. The existing standards for lease accounting are a good example of an area where FASB and the IASB both believe our existing standards are, to put it bluntly, not very good—both organizations' standards are inconsistent with the realities and complexities of the leasing arrangements that have evolved in the marketplace. So FASB and the IASB recently began a joint initiative to develop a common, improved standard, and that project is already underway.

In your remarks at today's conference you mentioned the idea of a "national plan" being

developed to move the United States to IFRS. Could you elaborate further?

Herz: The SEC has recently issued two releases for public comment, the first a "proposing release" on eliminating the current reconciliation requirement for foreign filers and the second an early stage "concept release" exploring whether U.S. public companies should be given a choice between U.S. GAAP and IFRS. While I strongly support the goal of getting to a single set of high-quality accounting and reporting standards for listed companies around the world, I am less convinced that an open-ended approach to allowing U.S. public companies to choose between U.S. GAAP and IFRS is the best way to accomplish this goal. I am also concerned that an extended period of choice would just add to the costs and complexity of our already complex U.S. reporting system.

Many other countries around the world have already moved to, or are planning to move to, IFRS. In doing so, they have developed their own national plans for making the change, plans that include the necessary steps and timetable for their country to make an effective and orderly change to IFRS. I believe we need to do the same—that is, we need to develop a U.S. plan for moving our reporting

system to international standards. In my view, such a plan would include a reasonable timetable and appropriate actions and milestones for further improvement in and convergence between U.S. GAAP and IFRS, as detailed in our 2006 Memorandum of Understanding with the IASB. Such a plan would also address the myriad other issues that will be encountered, such as the education and training of accountants, auditors, investors, and regulators; changes to the CPA exam; systems changes by companies; changes in contracts, regulations, and state laws that are tied to U.S. GAAP; the relationship between IFRS and SEC accounting and disclosure requirements; and the impact on reporting by private companies and not-for-profit entities. It would also address any structural, funding, and staffing issues related to having the IASB as the global standard setter, as well as the role of FASB in such a system.

How will you respond to governmental or political opposition to IFRS?

Herz: Dealing with opposition is part of what's necessary for taking the long-term view about the benefits of both improvement of accounting standards and international convergence. Both represent change, and

affected parties will sometimes oppose change. But there are definitely some tricky things that will need to be worked out as we converge; for example, the fact that IFRS doesn't allow LIFO accounting versus the "conformity" requirement for using LIFO under the U.S. tax code.

What is your assessment of investors' perspective of and comfort level with IFRS?

Herz: Some investors are more familiar with and comfortable with IFRS than others. So if the SEC were to allow U.S. registrants to use IFRS, companies might want to have discussions about the cost-benefit analysis of a possible change to IFRS with their major investors before making the change. There's a saying, "The art of investing is comparison." That's why some investors may not like the burden that a change to IFRS would place on them.

Fair Value and Codification

What can you tell us about the controversy over fair value accounting standards, and where do you see this discussion going?

Herz: Recently, in the wake of the problems in the credit markets, we have received favorable comments from investors on the new disclosures required by SFAS 157 [*Fair Value*

Measurements] because they provide much greater transparency regarding the use of fair value measurements in the financial statements. I should also mention that FASB has formed a Valuation Resource Group, which will assist us in determining whether additional guidance is needed. The group is composed of people with a good range of relevant backgrounds, experience, and expertise in valuation matters. Also, the measurement phase of our joint project with the IASB on the Conceptual Framework is underway and should provide us with better guidance on deciding on the future use of fair value and other measurement attributes.

What can you tell us about FASB's codification project for integrating and updating the various components of U.S. GAAP into one body of accounting literature?

Herz: The codification project was necessary because GAAP (which had emanated from multiple sources) was out of control. The first step was to corral the monster, so to speak, and put it in a logical structure. The codification will soon be released for public use and feedback for a year or so before we make it the official source of U.S. GAAP. Over time, sections will gradually be replaced with standards we develop with the IASB. □