The Beginning of the End of GAAP

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FASB chairman Robert Herz announces that a public forum, slated for June, will kick off an effort to move American companies to international accounting standards.

Mark June 16 down in your BlackBerry. It's the day the Financial Accounting Standards Board and the Financial Accounting Foundation will host a public forum to discuss a new national blueprint for moving the United States to international financial reporting standards.Related Articles
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FASB chairman Robert Herz made the announcement at a conference on Thursday, also held at Baruch College, and noted that the board continues to work with the International Accounting Standards Board (IASB) on their convergence project to create "something better than either U.S. GAAP or IFRS alone."

In October Herz floated the idea of a blueprint when he testified before the Senate Subcommittee on Securities, Insurance and Investment. At the time, he asserted that developing an "improved version of IFRS will be a complex process," and that "a smooth transition will not occur by accident." As a result, the blueprint should "identify the most orderly, least disruptive, and least costly approach" to move U.S. public companies to IFRS. In addition, Herz called for a target date and timetable to make sure there is adequate time for making changes to the current rules.

Those changes include getting rid of "carve-outs," local rule exceptions adopted by some countries that deviate from the version of IFRS that is sanctioned by the IASB. Another adjustment supported by Herz would be to strengthen IASB's position as an independent standard setter by establishing a sustainable source of funding. (It currently is supported by private-sector donations.)

One idea is to require countries that adopt IFRS to fund the organization. In 2002 the Sarbanes-Oxley Act boosted FASB's independence by requiring government funding for the board and its parent, the FAF. Before that, funding came from the private sector.

The call for a single set of global accounting standards will likely require a single standard setter, and that organization will probably not be FASB â€” something that Herz and other FASB members have publicly acknowledged. Indeed, last week FASB member Thomas Linsmeier said the "least important question [regarding the switch to IFRS] is what happens to FASB." Linsmeier, speaking at an industry conference sponsored by Pace University's Lubin School of Business, said that from a broad perspective, FASB's survival should not be what motivates the decision about moving to IFRS.

Before a transition to IFRS becomes a reality, however, other issues will have to be addressed, including how to change the CPA exam to coincide with IFRS, and how to rework accountant training, education, and auditing standards to put the American system in sync with international rules. What's more, the industry will have to evaluate how adoption of IFRS may change SEC policy and legal arrangements that are based on U.S. GAAP, noted Herz in his congressional testimony.

Next month's blueprint meeting will also be a good opportunity to work out which road companies eventually will take to become compliant with IFRS. The most pressing question is whether to operate dual accounting systems and have companies choose their adoption date within a specified window of time, or have FASB set a specific deadline for all companies to make the jump to IFRS.

Whichever path is taken, a few big accounting-practice issues will have to be settled between FASB and IASB before U.S. companies adopt the global standards. They include defining liabilities and equity, reworking financial-statement presentations, and revamping lease accounting and revenue-recognition rules.

In the meantime, FASB will continue to work on wringing complexity out of GAAP. For example, by the end of June, FASB's staff is due to release proposals on hedge accounting to resolve practice issues and make disclosures easier to understand. Further, the staff expects to issue proposals to eliminate qualified special-purpose entities from the accounting literature by revising FAS 140, and improve FIN 46R, the rule on consolidating variable-interest entities.

The SEC is also committed to moving U.S. companies to IFRS. While addressing the audience at the Baruch conference, Conrad Hewitt, the commission's chief accountant, said that while he "inherited the [IFRS] roadmap" from his predecessor Donald Nicolaisen, the "theme" at the SEC continues to be to move toward international accounting standards. Hewitt claimed that one of the legacies SEC chairman Christopher Cox will leave behind when he exits his post will be IFRS. He continued: "I think to compete in the future, we will have to move to IFRS."

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