



U.S. Securities and Exchange Commission

Speech by SEC Staff: Remarks before the IASB Meeting with World Standard-setters

by

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Thank you. I am very pleased to be in London with such a distinguished group of people who share a keen interest in international standard setting and regulation. This is truly important work.

In the United States, there are many initiatives underway that take up a great deal of my time including the reports by management and auditors that are due shortly on internal controls over financial reporting, the FASB's completion of its standard on stock option accounting, and a report mandated by the Sarbanes-Oxley Act that the Commission staff will provide later this fall to Congress regarding off-balance sheet matters. For today, however, my comments will focus primarily on two closely related subjects that I anticipate are of interest to this group: the reconciliation requirements for IFRS to U.S. GAAP by non-U.S. registrants filing with the SEC and the IASB-FASB convergence efforts. I will also touch briefly on some of the factors that I believe are likely to influence the future direction of financial reporting in the United States.

Before I get into the specifics, I'd like to make a few comments about the role of the Chief Accountant at the U.S. Securities and Exchange Commission. With over half of all U.S. households investing in our markets directly or through retirement funds, my job is to help ensure that these millions of investors can make investment decisions on the basis of timely, relevant, reliable and unbiased information that is presented in an understandable manner. This underlying principle - investor advocacy - forms the bedrock of the decisions that I make - including issues around reconciliation and convergence. Accounting standards provide the basic requirements for reporting transparent, high-quality financial information to investors in the capital markets. And it is from that perspective that I am

going to speak today, namely "what is good for the investor."

Some of you already know this, but my job also requires that I give a disclaimer whenever I speak at events such as this one. The remarks I make today are my own and do not necessarily represent the views of the Commission or its staff.

One reason that I am delighted to be here is that I am in awe of the tremendous and positive progress that has been made in the European Union to move to an integrated financial services market and of the efforts in the EU and in other areas around the world to improve the infrastructure that supports high quality financial reporting. These are massive and difficult undertakings which continue to challenge all involved. I am greatly impressed by the progress that has been made to create and improve IFRS. Developing a high quality set of international accounting standards has truly been a monumental task. I would also like to commend the IASB for its efforts to work with standard setters around the world to find high quality solutions to important accounting issues, and in particular for its cooperation with the FASB to address differences between IFRS and U.S. GAAP. I am grateful that standards setters in various parts of the world are making significant contributions to improve accounting. Issuers in Europe, the U.S. and around the world have pursued progress on convergence, and the work being done will greatly reduce differences in accounting standards which, in turn, will benefit investor understanding.

At a conceptual level, supporting convergence is easy. An accounting treatment that transparently reflects the economics of a transaction to readers of financial statements in the U.K., will also do so for readers in France, Japan, the U.S. or most any other country. Similarly, the auditing requirements and procedures that are the most effective are likely to be the same in the U.S., Canada, China, or Germany. Disclosures relevant to investors in Italy, Greece, or the Middle East, are likely to be just as useful to investors in the U.S. and elsewhere. Having high-quality standards for accounting, auditing, and disclosure benefits investors and reduces the cost of accessing the capital markets around the world. In short, convergence is good business and good for investors.

In order to realize the benefits of truly international financial reporting, we need convergence in all of the areas I just mentioned, accounting, auditing, and disclosures. And we also need to work to continue to enhance cooperation and consistency in regulatory review and enforcement, and to improve training and interpretive mechanisms as well. The amount of coordination necessary to do this is daunting. But a lot is already happening here in the U.K., Europe, the U.S. and elsewhere. At the SEC, we have been following developments in international financial reporting with great interest, and giving much thought to matters such as the SEC reconciliation requirements for listed companies from outside the U.S. who register with the SEC. We also follow with great interest the convergence work that is being done by both the FASB and the IASB to reduce differences between IFRS and U.S. GAAP. Our commitment to international initiatives is major, and I expect to announce shortly the name of a third deputy chief

accountant for my office who will focus on international issues.

My personal view is that if things continue as they have been going - if the IASB operates as a strong independent standard-setter and continues to develop and issue high quality standards, if the commitment to quality application of IFRS remains, and if good progress is made in accounting convergence and the development of an effective global financial reporting infrastructure - then I believe that the SEC will be able to eliminate our reconciliation requirements. I assure you that I am eager to embrace IFRS because I believe our investors in the U.S. will benefit.

To that end, we are considering the steps that need to be taken to allow us to eliminate the reconciliation from IFRS to U.S. GAAP. One such step is to review the quality and consistency of the application of IFRS. While a great many non-U.S. companies register securities with us, currently less than 50 of these registrants use IFRS for their primary financial statements. This will change in 2005 as we expect perhaps as many as five hundred of those filing with us to use IFRS. We are gearing up for a review those 2005 filings to take advantage of the knowledge that can be gained from studying such a large number of IFRS-based financial statements. We will be working with preparers, the IASB, FASB, and other regulators to gather information on the experience and knowledge of those adopting IFRS for their 2005 filings which will be available for our review in the second half of 2006.

By eliminating differences between U.S. GAAP and IFRS to the greatest extent possible, the reconciliation process should in fact be less onerous. The IASB and the FASB agreed formally in October 2002 to work towards convergence in their standards. The two Boards are now working together on several major projects, and they have coordinated agendas, so that any major project that one Board takes up will also be taken up by the other Board. In addition, the two Boards have been working on "short-term convergence," which involves quickly converging in certain areas to whichever Board's standard is better. This process involves incremental improvement - instead of rethinking the issue entirely, the Boards consider the two existing models, and select the better one. If neither standard seems to be sufficient to meet today's needs for information, the Boards consider undertaking a broader project. Many of the changes the IASB made in its recent amendments to previous standards increased convergence while improving the accounting involved, and the FASB has exposed four drafts that would change U.S. GAAP in certain areas to conform to IASB guidance that is considered to be better. At the SEC, we will monitor the reconciling items that exist in converting from IFRS to U.S. GAAP, and we will provide information to the Boards to make sure they are aware of those differences that show up most often.

Convergence is a two-way street, and I strongly support both Boards working closely together. Said another way, convergence does not mean converging to U.S. standards. I expect that the FASB will look to IFRS where appropriate. I view the convergence project as an opportunity to make improvements for the benefit of investors. In converging standards, the standard-setters should always choose the better model. Convergence to the

lesser accounting model, what has been referred to as "lowest-common-denominator convergence" or a "rush to the bottom" is not acceptable, and in fact, has not occurred. And I am grateful that the IASB, while seeking convergence, has done so without compromising quality.

I also want to emphasize how important it is that the IASB continue to function as a truly independent standards setting body. They have not always listened to everything that we on the SEC staff, or the International Organization of Securities Commissions (IOSCO), have suggested. Or perhaps, to be completely honest, we should acknowledge that they did listen, but arrived at different conclusions. This is to be expected when professional standards are independently determined. So long as the standard is operational and provides useful, high quality information to investors, we accept this.

Before I conclude, I would like to make a few comments about the U.S. financial reporting process, which is also undergoing a period of accelerated change. I said earlier that I believe financial reporting is broader than just audited financial statements and footnotes required by GAAP. In our case this includes various disclosures in filings with the SEC, including Management's Discussion & Analysis (MD&A), key performance indicators and other appropriate non GAAP measures and disclosures. These disclosures are essential to an understanding of financial performance, especially as we struggle with a mixed attribute model that uses historical costs, lower of cost and market, and fair values.

I also believe that the current process of accounting standard-setting can be improved by focusing more on the underlying objective of the accounting that is being addressed. Similar transactions should receive similar accounting. While both the IASB and the FASB do identify key principles and objectives, further work is still needed to better clarify the principles underlying all existing standards. This will not be easy. The issues that await resolution are extremely complex. These include a number of issues that will be covered in our upcoming off-balance sheet study including pensions, leasing transactions, consolidation practices and more. I'm delighted that the IASB has these areas on its radar screen, but realize that there are no easy answers and this will be tough work.

I should be clear in that objectives-oriented standards do not stop with the articulation of objectives. To me, other important attributes of objectives-based standards include:

- A clearly-defined scope;
- Avoidance of scope exceptions;
- Avoidance of bright-line tests; and
- Sufficiently detailed implementation guidance (including real-world examples as much as possible).

Last year, the SEC carried out a study on the subject of principles-based accounting standards, as mandated by the Sarbanes Oxley Act in 2002. The points I have just made are described more fully in that study, which is available on the SEC web site. I would sum up my thoughts on this issue by saying that I believe that standards should be based on principles and objectives which are clearly described in the standard, that sufficient additional guidance should be available to promote consistent application of the standard, and that standards should be understandable to those who have to use them in financial reporting. This year we will release our report on off-balance sheet accounting. I hope that the observations we make in that report will stimulate further improvements in accounting standards.

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In summary, I believe that the prospect for convergence in U.S. GAAP and IFRS is very good. As far back as 1988, the Commission encouraged all securities regulators to work together diligently to create sound international regulatory frameworks to enhance the vitality of capital markets. Since that time, we have worked actively with other securities regulators around the world through IOSCO to monitor and encourage the development of a single set of high quality international accounting standards. The IASB has pursued an ambitious agenda and we at the SEC will devote even more resources to international efforts, because I believe the work of the IASB and others is important to investors, issuers and all participants in the capital markets. There are many people and groups around the world who are dedicated to convergence and improvement in international accounting and auditing standards. I encourage all national standard setters to stay involved and to dedicate appropriate level of resources which can be broadly leveraged.

Being here in London today, I would also like to particularly acknowledge the efforts of IASB Members and its staff, who have worked tirelessly with standard setters around the globe in making enhancements in international accounting standards. This has been a truly monumental task, and I commend them for their great efforts.

Thank you.

<http://www.sec.gov/news/speech/spch092804dtn.htm>