



U.S. Securities and Exchange Commission

Speech by SEC Staff: Remarks before the 2006 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, and appreciate the efforts you all have made to make time for this conference, especially the efforts of those who have traveled from outside the United States to get here. To those folks I say — from the voice of experience — here's hoping you had an aisle seat.

And to the familiar faces in the audience, it is good to see you again. For those of you I have not yet met, I look forward to meeting you throughout the course of the conference. If, however, we don't happen to meet here, let me know if next year you plan to be in Madrid or Mumbai; Hong Kong, Tokyo, Zurich or Singapore; London, Paris or Rio de Janeiro. If so, I or one of the people who works with me will look for you there. If I do see you while abroad you can count on the fact that, as with today, any remarks I would make are my own, and do not necessarily represent the views of the Commission, the Commissioners or of other members of the Commission's staff.

Today's Remarks

In deciding upon the content of a speech I always have the choice between offering up a broad policy view and sharing an anecdote. Today I'm going to go with an anecdote. If, however, this somehow leaves you unfulfilled, remember that I will also speak tomorrow afternoon during the International Accounting Standards session.

My anecdote stems from the "roadmap". As a reminder, the "roadmap" is the

colloquial name for a document that makes the case for a single set of global accounting standards and, in that vein, goes on to describe the considerations by the SEC staff to recommend eliminating the need for its foreign registrants to reconcile financial statements prepared using International Financial Reporting Standards to US GAAP. My anecdote stems from what I see as the SEC staff does its work to navigate the "roadmap." Having seen what I have seen certainly leads me to thinking and causes me to wonder about certain things. So, with all due respect to John Jacob Niles and the title of his famous Christmas carol, this is kind of a speech about "what I wonder, as I wander" around one aspect of the "roadmap." Now, to the anecdote.

The Anecdote

An early mile marker in the roadmap is the anticipated shift in the US capital markets of the number of registrants filing "home country" financial statements prepared pursuant to International Financial Reporting Standards, or IFRS. This is IFRS as promulgated by the International Accounting Standards Board. I make this distinction because lately the term "International Financial Reporting Standards" has almost become like the term "Kleenex", in that people may use it to also describe GAAPs that are national jurisdictional adaptations of IFRS. These may be referred to as something along the lines of "IFRS as adopted by Jurisdiction X" or "Jurisdiction X IFRS."

The roadmap mile marker with respect to the anticipated shift to filings containing financial statements prepared pursuant to IFRS as promulgated by the IASB is a movement from approximately 40 foreign registrants who file IFRS financial statements to approximately 300 filing such financial statements for 2005 and, after considering various home market transition provisions, to approximately 400 for 2007. I don't think the US public capital markets have yet seen this movement to approximately 300 such registrants. As a matter of fact, by my count the 2005 filings left the US public capital markets still sitting at approximately 40 registrants making such filings, although not exactly the same 40 registrants as at the time the roadmap was written.

At this point you probably have your own "I wonder" moment; which is you wonder how the remaining approximately 260 registrants filed. On this I think I can shed a little light.

First, some of the 260 registrants reported that they had a "life event", if you will, resulting in their not filing a Form 20-F for 2005. For example, the registrant was the subject of a takeover or was liquidated; bought back its securities or they matured; or the registrant now needs to report on Form 10-K, is a delinquent filer, and so on. There are also still a few 20-Fs yet to arrive from companies with June 30 year ends because they have six months to file with us. The remainder of the 260 registrants did submit a Form 20-F. In these filings the registrants seem to have presented financial statements generally in one of the following three ways:

- a. Continued to present audited financial statements prepared in, as opposed to reconciled to, U.S. GAAP, if that is indeed the approach used in 2004.
- b. Switched to presenting audited financial statements prepared in accordance with its home jurisdictional adaptation of IFRS.
- c. Switched to presenting financial statements prepared in accordance with both (i) IFRS as issued by the IASB and (ii) its home jurisdictional adaptation of IFRS. The registrant's auditor, however, opined only on compliance of the financial statements with the home jurisdictional adaptation of IFRS.

While any of these three approaches fits within the SEC's current filing requirements they are, by way of contrast, different than either of the approaches taken by the previously mentioned approximately 40 foreign registrants. The 40 registrants seem to have presented either (i) audited financial statements prepared in accordance with IFRS as issued by the IASB or (ii) financial statements in accordance with both IFRS as issued by the IASB and home jurisdictional GAAP with the registrant's auditor opining on both.

What I Wonder

At this point my "I wonder" moment arises; which is I wonder why the portion of the other 260 registrants who made a filing, did what they did. No doubt there are really many factors at work. Perhaps you can shed a little light on these factors. Since, however, it's not practical to have a conversation right now, let me offer two ideas as to factors at work; they are (i) market forces and (ii) metaphorically, the penguin theory. First, to market forces.

Market Forces

To understand my term "market forces", think of the cost versus benefit analysis that guides any behavior. For example, given a choice between applying US GAAP and applying its home country GAAP with reconciliation to US GAAP, prior to 2005 some foreign registrants chose the route of applying US GAAP. Perhaps whatever cost versus benefit analysis supported going to the US public capital markets with that conclusion in 2004 was still operative for 2005. As another example, in situations in which a registrant finds that IFRS as issued by the IASB and its home jurisdictional adaptation of IFRS happen to be simpatico, the registrant may have made a cost versus benefit decision about not making the additional representation regarding compliance of its financial statements with IFRS as promulgated by the IASB if this representation were not otherwise required. There may be other market forces as well, but let me move to the penguin theory.

Penguin Theory

To understand the penguin theory, think about the documentaries which show groups of penguins standing on the edge of an ice floe looking into the water. They are all very hungry and eager to begin fishing, but very apprehensive to jump into the water, for lurking just below the surface are the penguin's natural enemies, the seal and the killer whale. If one or only a few penguins jump in, they will surely be attacked. If an entire group jumps in, however, the chances of a negative outcome will decrease substantially. So the penguins are content to jump in as long as they know others are willing to go with them. In other words, expectations count.

The penguin theory could be a metaphor for one driver of the situation in which the registrant prepares its financial statements in accordance with both IFRS as issued by the IASB and its home jurisdictional GAAP, but the auditors opine only on the jurisdictional GAAP. If indeed an individual auditor would be more inclined to also opine on the registrant's application of IFRS as promulgated by the IASB so long as other auditors were expected to do the same, we can think of the individual auditor as perhaps, metaphorically, behaving like an individual penguin who doesn't want to jump. It appears, however, that some auditors have been metaphorical early jumpers, because in some of the 40 filings I earlier referenced the auditor appears to have opined on either solely the application of IFRS as promulgated by the IASB or on both it and the home jurisdictional GAAP. If my penguin effect idea has merit, perhaps these metaphorical early jumpers will influence the others.

Closing

In closing, let me observe that there are probably other notions at work beyond the market forces idea and the metaphorical penguin theory, and indeed if you think about them those ideas yield more "why" questions themselves. Why were the costs and benefits viewed as they were? Is there more to the thinking of the metaphorical early jumpers, and to those who did not? We don't have time this morning to address all of this, so let me just say that I chose this anecdote to share with you because it is important to me to understand all the "whys", and thus the influences on the anticipated shift in the number of IFRS filings in the US capital markets.

Lastly, you may remember that earlier I referenced the famous Christmas carol entitled, "I Wonder as I Wander." In the lyrics of that song the wondering is about a promise of the ages; that promise is the events of the Christmas story. In financial reporting we have a promise of the ages too; that is a single set of globally accepted accounting standards in use worldwide.

Thank you very much for your attention.

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[Home](#) | [Previous Page](#)

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