U.S. Securities and Exchange Commission

Speech by SEC Staff: Implementation and Enforcement of IFRSs

by

Julie A. Erhardt

Deputy Chief Accountant, Office of the Chief Accountant
U.S. Securities and Exchange Commission

World Standard-Setters Conference
London, England
September 24, 2007

Introduction

Good afternoon; and welcome to all of you at today's World Standard-Setters Conference. I am pleased to participate and to have the opportunity to listen to others' perspectives on, and experiences with, working with International Financial Reporting Standards (IFRS).

For me it is a bit of a reunion to be here since I previously worked at both the US accounting standard setter-the Financial Accounting Standards Board-and here in London at the International Accounting Standards Board (IASB). During that time I would like to think I contributed at least marginally to the advancement of accounting standards. You can assess this by evaluating the drafting quality of IAS 16, *Property, Plant and Equipment*, and direct any compliments or complaints to me. Your views on the accounting results it yields should, however, be directed to members of the Board!

Let me now move to do what is appreciated of any reunion speaker, which is to be succinct and get to the point. Before doing so let me say that the remarks I make today are my own and do not necessarily represent the views of the Securities and Exchange Commission, Commissioners or of other members of the Commission's staff.

Today's Remarks

Meeting with you today to share perspectives on and experiences with IFRS seems like a tall order for an American, since the US has not moved to IFRS reporting beyond the reconciled reporting of the SEC's foreign registrants. But luckily I have personal interaction with those involved in moving to IFRS when I am on the ground overseas approximately once or twice a month. I also have experience from my interactions with my fellow securities regulators through the International Organization of Securities Commission's (IOSCO) Standing Committee on Multinational Accounting and Disclosure. With respect to IOSCO, I must also say that my remarks today are my own and do not necessarily represent the views of IOSCO or of any of my fellow securities regulators. My last source of IFRS experience is the fact that I have within my remit work on the SEC's current policy considerations related to the potential role of IFRS as published by the IASB in the U.S. capital markets. These matters are currently out for consultation in the form of a Proposing Release for our non-U.S. companies and a Concept Release for U. S. companies.

The anchor to my remarks today is the view that investors in the global capital markets would benefit from the enhanced ability to efficiently compare investment opportunities which would be afforded by the development and use of a set of globally accepted accounting standards. With this "medical need", if you will, of the global capital markets in mind and the move of IFRS to meet it, I offer three observations related to keeping IFRS "healthy", to continue the medical analogy. In offering these observations I will not try to cover the ground that several securities regulators or their counterparts-specifically at least those in France, New Zealand, the United Kingdom and the staff at the SEC-have covered in their previously released observation reports on IFRS application by companies whose securities are listed in their markets. Since these reports are publicly available you can read them at your convenience. Now, I will move to the first IFRS healthy habit.

First Observation

My first "healthy habit" observation relates to square one of financial reporting, which is whether investors can determine the basis of accounting under which a set of financial statements is prepared by reading the basis of presentation footnote, which is typically footnote 1. Prior to the movement of many countries toward IFRS, it was probably a pretty safe bet for investors to assume that the financial statements of a company located in Country X were prepared in accordance with the "Generally Accepted Accounting Principles of Country X". Further, that body of standards could be located for reference purposes by key word searching the terms such as "accounting standards" or "accounting standard setter" and "Country X."

In today's environment I would suggest that the safe bet is not so safe because more and more often a company's financial statements are likely to be prepared in accordance with IFRS as published by the IASB and/or a jurisdictional adaptation of IFRS. Even in these situations an investor may not be sure what the distinction between the two means and how significant it is for a particular company. Indeed, in the foreign registrant filings we have seen at the SEC, there are varying ways that issuers have referred to their basis of presentation that utilize the term "IFRS." For example, issuers have referred to:

- International Financial Reporting Standards.
- IFRS as approved by the International Accounting Standards Board.

- IFRS as adopted in Jurisdiction X. However the financial statements would be no different under IFRS as issued by the IASB.

- The Jurisdiction X equivalents to IFRS in their entirety.

- IFRS as adopted in Jurisdiction X. Those portions of IFRS not adopted have no material effect.

- IFRS as adopted in Jurisdiction X and Local Requirement Y. The financial statements would not present any significant difference had the standards issued by the International Accounting Standards Board been used.

- IFRS as adopted in Jurisdiction X with some additional information disclosed pursuant to Standard Y of the Jurisdiction X financial accounting standards.

While you and I as specialists may think the distinctions among these seven different representations are intuitive or obvious, I would surmise that to investors-and to retail investors in particular-this is not the case. My "healthy habit" then comes around to a question for you, which is how robust are the disclosure requirements in your jurisdiction with respect to investors being able to identify and appreciate the accounting standards on which the financial statements are based, perhaps the source of those underlying accounting standards, and so forth.

Second Observation
My second "healthy habit" observation relates to whether and how those who identify rough spots in IFRS in implementing it locally can-for the good of the international order-make those rough spots knowable on a timely basis to not just the IASB but also to the other parties working with IFRS around the world? I think many implementation matters which seem unique to a local situation may have local facts but are at their core a broader issue or in any event are at least instructive to those working with IFRS. Further, if a local authority sees an implementation issue as significant enough to warrant dissemination of information or a point of view to fill the gap until the IFRS standard setting and interpretive processes yield additional information, then the matter is probably something that the IASB and others would want to know about.

This act of making the international community aware, pursuant to the type of credo that exists in an "open source" technology environment, would seem to help maintain IFRS as a set of accounting standards used globally. Conversely, not making the international community aware would seem to move away from maintaining healthy global accounting standards. In particular, once the IASB is aware, it can judge whether further changes to IFRS are appropriate so that the matter can be addressed on a global level.

While the actions I describe are for the good of the international order, they have even more of a practical effect to the extent the handling of a rough spot locally is inconsistent with what IFRS as published by the IASB calls for. If this is the case, then issuers following the local approach would not be warranted in stating that "IFRS as published by the IASB" was their basis of accounting, something they may wish to do.

I think the good news is that we are all here today and thus have a chance to interact and hopefully share some of the anecdotes I describe. I would encourage all of us to continue to attend events like today's conference but additionally take other actions on a real time basis to get the word out on a matter, for my sake preferably getting it out in English.

Third Observation

My third "healthy habit" observation relates to how to make IFRS as a body of standards robust and adequate for investors' purposes, yet at the same time somehow nimble and not overly complex. I'm sure the IASB is focused on this or a similar ideal; but as with anything making the resolution is not what's difficult, it's keeping the resolution on a day-to-day basis that is the challenge.

In the US we are currently doing some work that may contribute to this resolution, or to like resolutions in your own jurisdiction. Specifically, in July of this year the SEC decided to give the construction of the US financial reporting system for public companies a "check-up", if you will, by establishing the Advisory Committee on Improvements to Financial Reporting (the Advisory Committee). The Advisory Committee is composed of seventeen individuals from outside of the SEC who are knowledgeable about the US capital markets. The Advisory Committee has been chartered to consider ways to both reduce unnecessary complexity and to make information more useful and understandable for investors. Phil Laskaway, the International Accounting Standards Committee Foundation Chairman, is one of the Observers to the Advisory Committee. In this capacity he can share from the IFRS experiences as well as bring back to the IASCF any points learned.

More information about this Committee is on the SEC's website; however, perhaps of worthy note for you are the Committee's intent to explore not only the US accounting standard setting process but also the workability of the standards it produces. The Committee also plans to consider international matters from the standpoint of better understanding how standard setting works outside the United States.

Closing

In closing, let me say that I think all three of my "healthy habits" for IFRS seem to call for a lot of thought, effort and work on the part of many. However, I personally take comfort in the fact that those who really do work in medicine and save lives every day are undeterred by the issues for which it is imperative they find an answer. If this is the case, then how can we be taken aback by any matters associated with accounting?

As with medical breakthroughs, however, improvements in the implementation and enforcement of IFRS will not just fall into our laps. Rather, it will take concentrated effort on your and my and my fellow regulators' parts, as well as on the part of the investors and issuers alike who are involved in the financial reporting process. To this point about effort, I am reminded of the story of the man who for months and months made daily visits to a statue in his church, each time intoning to the statue "Please, please, please, may I win the lottery?" Finally one day, in almost exasperation, the statue came to life, looked down on the man, and intoned, "Please, please, please, buy a ticket."

Thank you very much for your attention.

http://www.sec.gov/news/speech/2007/spch092407jae.htm
