



## U.S. Securities and Exchange Commission

### **Speech by SEC Commissioner: Remarks Before the Global Financial Reporting Convergence Conference**

*by*

**Commissioner Kathleen L. Casey**

*U.S. Securities and Exchange Commission*

Financial Executive International and the European-American Business Council  
New York, New York  
September 28, 2007

Thank you, Mark, and good afternoon. I appreciate the opportunity to be here today to talk to you about the SEC's role in support of international financial reporting convergence. Under the leadership of Chairman Cox and EU Commissioner McCreevy, the Commission and our counterparts around the world are working to develop a single set of high-quality global accounting standards that promise to produce significant benefits for investors, issuers and our markets as a whole. Before I continue, let me state that the views I express today are my own and do not reflect those of the Commission or my fellow Commissioners.

Today's conference is exceptionally timely because I believe we are engaged on several fronts at a critical point in the development, convergence, support and acceptance of global financial reporting standards. There are two major changes afoot that I would like to focus your attention on this afternoon. Both promise to revolutionize, improve and harmonize financial reporting on a global scale. And - of course - they are most well-known by their acronyms. So let me begin by adding these acronyms to your accounting lexicon if you are not already keenly familiar with them.

The first is IFRS, which stands for international financial reporting standards. This is an accounting system developed by the International Accounting Standards Board ("IASB") that, in an amazingly short period of time, has gained a foothold in over 100 countries, including the 27 EU member states and much of the rest of non-U.S. capital markets. These countries either currently require or permit IFRS or are planning to do so in the near term. By 2011, the number of countries is expected to exceed 150.

The second acronym is XBRL, which stands for eXtensible Business Reporting

Language. This is an interactive data technology in which individual pieces of data are "tagged" to be computer readable, permitting investors to reconfigure financial information to suit their own needs and interests. More than 40 U.S. companies representing \$2 trillion of market capitalization are currently participating in the SEC's voluntary XBRL filing program, submitting periodic reports in XBRL as well as through EDGAR.

These two independent, but complementary, international developments, currently being considered and supported by the SEC, will ultimately change the landscape of financial reporting for issuers, investors, global markets and the regulators that oversee them.

The drive toward convergence of financial reporting standards is a logical one, born and driven in large part in response to the demands and the realities of the marketplace - not, you will be pleased to learn, simply the theoretical aspirations of regulators. Our growing global marketplace will only continue to demand high-quality financial information as investors seek out new opportunities and companies and markets seek to reach new investors and pools of capital. The challenge in a global market is reducing the costs associated with the access to, and comparability of, information that has historically been constrained by different accounting standards, legal and cultural traditions, and regulatory regimes. To achieve this, a common accounting language is needed that can be translated and understood globally. That, in turn, requires convergence between the two major financial reporting systems in the world - U.S. GAAP and IFRS.

Two major developments in 2002 helped jump-start this effort. First, as part of a broader initiative to create a single market, which in turn called for a common accounting language, the EU mandated that its listed companies abandon home country GAAP and begin preparing financial statements in IFRS in 2005. Also in 2002, FASB and the IASB signed the Norwalk Agreement in which each pledged to work together to make their then competing standards compatible. By the time the SEC's famous "roadmap" to elimination of the U.S. GAAP reconciliation requirement was issued in April 2005, the stage was already set for the Commission to consider accepting IFRS from foreign private issuers by 2009.

My timeline may make it seem as though the Commission is a late entrant to the convergence movement, but developing a single set of global accounting standards has been one of the Commission's goals for quite some time. Beginning in the late 1960s, the Commission's focus in the international arena was on increasing the participation of foreign issuers in the U.S. capital markets as a way to provide additional investment opportunities for U.S. investors. The Commission wanted investors to have largely comparable information whether they were purchasing a foreign or domestic security, but it recognized the difficulty this presented for foreign issuers that prepared their financial statements based on non-U.S. standards. The reconciliation requirement in its current form was adopted in 1982 as an accommodation to foreign private issuers, a way of encouraging foreign issuers to enter U.S. markets without requiring a full GAAP presentation.

In the decades that followed, the Commission also began to focus on the benefits of developing international accounting standards as another way to expand U.S. investors' investment opportunities. As with the reconciliation requirement, this approach recognized that disclosure under non-U.S. standards, although not identical to U.S. GAAP, could still meet investors' needs, while reducing regulatory costs and burdens. In a 1997 study directed by Congress, the Commission encouraged the efforts of the International Accounting Standards Committee ("IASC"), the predecessor of the IASB, to develop international accounting standards. In 2000, we took an additional step in this direction with the issuance of a concept release seeking comment on how and under what circumstances such high-quality global financial reporting standards could be developed.

Then came Enron and WorldCom and the passage of the Sarbanes-Oxley Act. In addition to all the other changes they generated, the scandals called into question the prescriptive, rules-based approach of U.S. GAAP, and greater public attention and interest became focused on the need for a more principles-based accounting system. In 2003, a Commission staff study mandated by Sarbanes-Oxley concluded that an accounting system based on broad objectives, as opposed to simply rules or principles, would better facilitate international convergence as a means to improving global capital formation.

In March of this year, in its progress along the roadmap, the SEC held a roundtable on the effects of eliminating the reconciliation requirement. The discussion showed just how much the world has changed since the requirement was adopted twenty-five years earlier. Participants across the board, including foreign issuers, a domestic issuer, financial professionals and investor groups, agreed that, while it may have been intended as an accommodation to foreign private issuers at the time, reconciliation has become a costly and burdensome exercise providing little added value to investors, and one that they believed should be eliminated quickly, even before 2009, if possible. The discussion also reinforced the view that the ultimate goal is the development of a global set of comprehensive, high-quality accounting standards that would serve investors by making it easier for them to compare investment options and reduce costs for issuers by no longer requiring them to prepare financial statements under more than one standard.

In June of this year, the Commission issued a proposal to eliminate the reconciliation requirement for foreign private issuers preparing their financial statements in accordance with IFRS as published by the IASB. Shortly after the IFRS proposal, the Commission issued a concept release seeking comment on whether U.S. issuers should have the same option as foreign private issuers of using IFRS. The concept release asks questions on the extent to which U.S. issuers would use IFRS and how GAAP and IFRS could co-exist side by side from the point of view of issuers, investors and the markets, and solicits comments on the practical considerations that would need to be addressed. The comment period on the IFRS proposal just ended, while the comment period on the concept release does not expire until mid-November.

If the Commission decides to eliminate the reconciliation requirement, it will be a major change. Some commenters see the elimination of reconciliation as an accommodation that would merely reduce costs for the relatively small number of foreign issuers registered in the United States. But in my view, eliminating reconciliation would be a watershed event. It would represent a much more significant recognition on the part of the Commission of the need and desirability of continuing down the path of convergence efforts towards the ultimate goal of the development of a single set of global accounting standards.

As we deliberate on the IFRS proposal, the Commission will give consideration to three key issues laid out in the proposal. First, there must be a robust process towards convergence. We are not looking for any particular degree of convergence, much less complete convergence, but rather continued progress towards convergence on the part of FASB and the IASB.

Second, we need assurance that IFRS as published by the IASB is being consistently and faithfully applied. Given that IFRS is an accounting system still in its infancy, and that is being applied today in over 100 countries, with that number expected to increase over time, this presents a very great challenge. Indeed, it would be unrealistic not to expect to find differences in interpretation and application across such a broad spectrum. Encouraging uniform application will require communication and coordinated effort among international securities regulators. The Commission staff has reviewed the annual reports filed under IFRS for 2005 and is in the process of reviewing annual reports for 2006 to assess how closely IFRS filers are adhering to IFRS standards and whether there is consistency in its application. Staff is also participating in IOSCO efforts to promote consistency in the application and interpretation of IFRS and is engaged in a joint work plan with the Committee of European Securities Regulators to discuss and address such issues.

Uniform application of IFRS will also require a global practice environment for internal accounting and reporting personnel as well as external audit firms. This was a concern expressed by many at the March roundtable. You will need the knowledge, skills, policies, practices, and attitudes to make sure standards are applied and applied consistently around the world. Interpretive guidance as well as technical IFRS capability will be required.

A recent survey by Duke University and CFO Magazine found that a relatively low degree of familiarity with IFRS by U.S. companies. This is not surprising, but it validates one of my key concerns, which is the need to step up IFRS training for our preparers and auditors. It is my understanding that the university-level accounting curriculum does not yet include a substantive IFRS component. In addition to adding IFRS to college coursework, CPA preparation and certification would eventually need to deal with IFRS as well.

I want to stress here that the development of converged audit standards will also be critical to the success of a globally converged financial reporting

platform. Discussions between Commissioner McCreevy and Chairman Olson of the PCAOB earlier this year produced agreement on the need to launch roadmap discussions for collaboration on auditing oversight. I strongly support these efforts and view them as an important corollary to our efforts on accounting convergence.

Third, we must have confidence in the IASB and its oversight by the trustees of the IASC Foundation, which appoints the members of the IASB, oversees its activities and raises its operating funds. The IASB has increased the transparency of its standard-setting processes by conducting its public meetings with Internet accessibility, seeking broader outreach on standard-setting proposals, publishing exposure drafts in multiple languages, and conducting post-implementation reviews. It has also enhanced its governance procedures by creating a public interest consultative body, on which IOSCO serves, to approve trustee appointments.

The lack of a fully implemented long-term funding mechanism for IASB operations is an issue that the IASC Foundation is working to address. Operating funds are currently paid voluntarily by issuers, accounting firms, international organizations and central banks. The Foundation is working to develop a new, broad-based funding mechanism by 2008 that would enable it to remain a stand-alone, private sector organization.

An additional concern that we have heard expressed since our IFRS proposal was issued is the IASB's possible susceptibility to the rules-based approach of U.S. standard-setters. As I mentioned, FASB and IASB have agreed to use their best efforts to make their existing financial reporting standards compatible and to coordinate their work programs. In a 2006 Memorandum of Understanding among the FASB, SEC and IASB, supported by the EU, the parties agreed to begin a number of convergence projects. They further agreed that, where one system has a better approach than the other, both systems would adopt the better principle without having to conform all of the detailed rules. And instead of trying to eliminate differences between two standards where both are in need of significant improvement, FASB and the IASB agreed to develop a new and better common standard. To my mind, this approach to the creation of high quality standards and the good faith of the FASB and IASB should allay concerns about the predominance of one accounting system or approach over another. It is in everyone's interest that any global standard be the superior standard and that we avoid U.S. GAAP or IFRS biases that would impede this worthy goal.

As I mentioned earlier, the comment period on the Commission's proposal ended just this week and from my initial review of many of the comments filed, it is clear that we have received significant input that should help guide our consideration on both broad policy questions as well as more technical, practical issues that would need to be addressed in any final rule.

If the Commission acts to accept IFRS, we will need to make the gains of accounting convergence real for investors. The process will be doubly challenging as we may well be entering a period in which investors will need

to understand IFRS disclosures as well as those of U.S. GAAP. Today, in my opinion, our accounting standards speak in hyper-technical language and are overly complex. This, plus the lack of common accounting standards, makes it difficult for investors to compare across companies. As a result, key economic information is not communicated as effectively as it could be. Quality financial information - even if produced in accordance with the best standards and practice environment - does not serve the needs of the markets or investors if it is not delivered in a usable fashion on a timely basis.

The move to international standards will require us to find creative and innovative ways to communicate financial information to investors, for this is no less important than the preparation and auditing of the financial information. Beyond its other benefits, moving to a single set of accounting standards, particularly a more principles-based system, has the potential to make financial information easier for investors to use to, for example, compare a wider range of companies.

As an aside, I also want to briefly mention two recent study committees that have been established to consider longstanding concerns over U.S. accounting complexity and the state of our existing audit system. The first is a new 17-person advisory committee, the Committee to Improve Financial Reporting ("CIFR"), charged with making recommendations to the Commission on ways to improve the accounting standard setting environment, accounting practice, and the usefulness and clarity of financial reporting to investors. The Treasury Department has also formed a committee, chaired by former SEC Chairman Arthur Levitt and former SEC Chief Accountant Don Nicolaisen, to consider how to further strengthen our auditing system. The work of both of these committees should be instructive and should complement our ongoing efforts at the Commission to improve financial reporting for investors.

The second major initiative we, at the SEC, are working to enable and support is XBRL, which will soon make it possible to assemble and report financial information faster, more accurately, and more cost effectively than ever before. This technology will empower investors not just to compare the information that companies report, but how companies report that information under the various options permitted under U.S. GAAP. The potential for developers to create software that exploits tagged financial data is limited only by the imagination of financial data users and the value of more accurate and more complete analysis. Soon, a next generation of XBRL will empower investors not only to "pull" XBRL-tagged data from company reports, but to have it "pushed" to them instantly, as changes in company information occur.

XBRL also has the potential to improve the accuracy of financial statements, improve audit quality, and drive down issuer costs. Today, most filers must export or cut and paste data into other applications, lending opportunity for error and requiring extensive proofing. However, the controller of one of our test filers, United Technologies Corporation ("UTC") recently wrote that he envisions a day when the company's entire financial report will be created within its internal financial software, automatically tagged in XBRL, and used

to provide direct reports for management review and approval. When the review is complete, the financial statement files will be generated in XBRL and transmitted to EDGAR. By implementing XBRL, UTC expects to realize a nearly 20% savings in hours, while dramatically reducing the potential for errors. "By not manually extracting the data and working in multiple documents," UTC says, "the effort to proofread, review, check and add footnotes is not required. This eliminates 150-200 hours of labor from the quarterly reporting process, while concurrently strengthening the overall process controls."<sup>1</sup>

This is truly a global effort. From the Netherlands to Australia, from Japan to New Zealand, from the U.K. to Spain, governments and businesses are looking for ways to reduce the costs of information collection and reporting. A new program by Deloitte to reduce processing time and costs for its middle market clients is just one example. According to Computer World, Deloitte Digital CEO Peter Williams has created a pilot project intended to show, for example, how Australia's government-wide program for Standard Business Reporting could save time and money. Williams stated that, because XBRL data, once tagged, can be reused as often as necessary, it "will deliver one source of truth, accurate at all times, that can be cut and diced, according to business and government reporting needs."<sup>2</sup> The initial testing of XBRL applications showed up to 70% times savings for preparing reports and returns, Williams said.

XBRL got a boost earlier this week, when Chairman Cox announced a major milestone: the completion of the U.S. GAAP taxonomies needed to begin XBRL reporting on a wider scale. At his direction, the Commission staff is working to prepare a recommendation to make XBRL mandatory, so now is the time to begin your work in this area. Remember that XBRL is more than just manually tagging numbers for transmitting them to EDGAR. It means integrating XBRL into the preparation of your financial statements. Also remember that it's not about the technology itself, it's what the technology can provide - better information for investors and a variety of benefits for the companies that make better information available to investors.

There is an interesting parallel between the work to converge accounting standards and the continuing work to implement XBRL. While the IASB, FASB and other standard setters are working to converge international accounting standards, the U.S. GAAP and IFRS taxonomy teams are working to ensure that their taxonomies are aligned. In a future in which companies file their financial statements in XBRL, using either U.S. GAAP or IFRS, preparers and users of financial data should not need to build separate technologies for different accounting systems. XBRL will be especially useful here as it offers a way to compare disclosures under U.S. GAAP and IFRS, and highlight differences in whatever ways are most informative to managers and investors. Independent of each other, XBRL and IFRS have the potential to help improve the usefulness of financial data for investors and reduce accounting complexity. United, they can be a powerful force for accounting convergence.

Let me close today by looking at the bigger picture. Global markets are already a reality. If the Commission approves the elimination of the reconciliation requirement, the United States will soon be on the list of countries that require or permit the use of IFRS. And the more widespread the acceptance of IFRS becomes, the greater the pressure on the United States and on many U.S. companies to follow suit. If foreign private issuers are permitted to use IFRS in the United States, my preliminary view is that the Commission would be hard pressed to deny that choice to U.S. issuers.

The Duke-CFO Magazine survey I mentioned earlier indicates that a relatively small percentage of U.S. companies expressed a significant interest in converting to IFRS. These initial findings are not at all surprising. Based on their current level of familiarity with the costs and benefits of such a choice, the fact that U.S. companies that do not have international operations or that do not have international competitors may have little incentive to change their accounting systems. I query, indeed I would expect, that as IFRS continues to gain acceptance worldwide, and should the Commission recognize the comparability of IFRS, U.S. interest is sure to increase.

However, convergence of accounting standards is just one part of this larger picture. As our markets have gone global and become more competitive, our historic regulatory approach has been increasingly challenged. This requires us as regulators to be more nimble and responsive to market developments and rely more on cooperation and collaboration with our international counterparts, if we are to remain effective and relevant in meeting our mission of protecting investors, fostering capital formation and maintaining competitive, fair and orderly markets.

I believe the SEC has signaled an increased sensitivity to these market realities. We liberalized our deregistration requirements to make it easier for foreign private issuers to terminate their obligations under U.S. securities laws, and we have facilitated the consolidation of U.S. and foreign exchanges. We have taken steps to reduce the burdens of compliance with Section 404 of Sarbanes-Oxley. And we are actively considering the prospect of a mutual recognition framework to reduce barriers to cross border access for U.S. and foreign broker-dealers and exchanges. We also continue to be actively engaged on both a multilateral and bilateral basis with our foreign regulatory counterparts as we seek to address common problems and find, increasingly, more common solutions.

I do not underestimate the complexity of the challenges ahead or the practical problems that issuers, investors and regulators will face and that we must address in a reporting environment that recognizes two separate, but comparable, accounting systems. Nonetheless, I believe the ultimate goal of developing a single set of high-quality standards is the right one, and your support will be critical.

Indeed, when we talk about the cultural changes that will be needed to adjust to a global accounting system or a more converged capital marketplace, no one will be more challenged, perhaps, than the regulators

themselves. We must back up the faith we ask you to put behind these new approaches - and we must follow through on our interpretation and enforcement of more principles-based standards and approaches in the regulation of our markets. As daunting as the challenges may appear, as we take them on, our guiding principle remains the same. Just as investors demand greater global market opportunities, they also rightly expect high standards of protection. I am confident that we can continue to achieve both effectively.

Thank you, and I'd be happy to take your questions.

## Endnotes

---

<sup>1</sup>John Stantial, ROI on XBRL: Interactive Data Cuts Reporting Costs Today, JOURNAL OF ACCOUNTANCY 32, at 34-35 (June 2007) (available at <http://www.aicpa.org/pubs/jofa/jun2007/stantial.htm>).

<sup>2</sup>Sandra Rossi, Deloitte Trials XBRL Financial Reporting Standard, COMPUTERWORLD (Sept. 13, 2007) (available at <http://computerworld.com.au/index.php?id=1600458263>).

*<http://www.sec.gov/news/speech/2007/spch092807klc.htm>*