

## IFRS at a critical crossroad

**Date: 13 December 2010**

**Speaker: Harvey Goldschmid, IFRS Foundation Trustee**

**Venue: FEI conference, New York**

During the past decade - in a remarkable success story - International Financial Reporting Standards have been accepted in more than 100 countries and are now actively under consideration in a dozen more [e.g., China, India and Japan]. The goal of a single set of high-quality global accounting standards has been endorsed by the U.S. government and the G-20.

But the next 14 months will be critical in determining whether the goal of a “single set of high quality global standards” will be realized in the lifetimes of most of us in this room. The SEC is committed to making an adoption decision in 2011 and this is the key to the future. I very much hope the Commission will act affirmatively. Although I know that you dealt with IFRS issues yesterday, I wanted to take a few minutes to explain why I believe an affirmative decision is so important.

I should stop here and add a bit of disclosure. I am not an entirely unbiased observer. I am one of 22 global Trustees of the IFRS Foundation; the Foundation oversees the IASB. Today, particularly if I say something with which my Trustee colleagues disagree, I am speaking only for myself.

Let me quickly address the largest concern about the SEC’s 2011 adoption decision that I have heard from the business community. “Dodd-Frank, the financial crisis in general, and other Administration initiatives like healthcare have already put far too much on our plates. We cannot take on another heavy burden in 2011.”

There are three basic answers to this legitimate concern:

1. First, the 2011 adoption decision will not be disruptive. The effective date -- when IFRS would be required for the largest U.S. public corporations -- will not come until 2016, at the earliest. The SEC has talked in terms of 2015 or 2016 for mandatory implementation, and in my view, 2016 is the earliest, realistic date. This would provide ample time for planning, education, training, and retooling. The SEC is already use to reviewing IFRS filings, which now come from foreign private issuers. A recent survey by the FEI and KPMG found that 94% of 900 responders indicated that their organization could accomplish the effective

implementation of IFRS by 2016, if the adoption decision were made in 2011.

2. Second, I believe that the IASB and the FASB have done much to reduce transition difficulties and costs by narrowing differences between the two systems in their convergence projects. Also, through convergence, both sets of accounting standards have been improved. Both regimes now have strengths and weaknesses. Both are of high quality, but only one -- IFRS -- has the prospect of global acceptance.

The financial crisis has demonstrated all too vividly the danger of regulatory arbitrage and unhealthy political interference when the two systems, IFRS and U.S. GAAP, can be played off against each other. For U.S. public corporations, implementing IFRS in 2016 should enhance their attractiveness to foreign investors, lower their capital costs, and reduce their long-run accounting costs. For investors, one set of high quality global standards will increase transparency, reduce analytical costs, and increase global investment opportunities.

3. My third point is that a negative decision on IFRS in 2011 by the SEC -- or, as bad, a decision to delay an adoption commitment -- would likely have tragic consequences. In such circumstances, two basic scenarios are probable:

First, the coalition of nations supporting IFRS could break apart. Rather than two sets of accounting standards, IFRS and U.S. GAAP, we could go back to pre-2000 fragmentation. Many national accounting systems would exist. The cost, in terms of lack of transparency and comparability, higher accounting expenses, etc., would be extremely large.

The second basic scenario is even worse from a U.S. perspective. The coalition in support of IFRS could hold and the U.S. would become isolated. The U.S. would no longer play the large and constructive role it now plays in IFRS development and oversight. I believe that without active U.S. participation the overall quality of the international accounting standards would deteriorate. Remember, there is less concern about transparency and investor protection in some other parts of the world.

I also believe that the U.S. could not remain out of a global system forever. In a year like 2020 or 2030, the U.S. would be forced to adopt international accounting standards, but it would be adopting weaker standards than now exist, and it would have (as opposed to now) only a very small seat at IFRS drafting and governance tables.

This is a complex subject. Please feel to pepper me with questions. But, also, please accept - and act upon - my principal message: In its enlightened self-interest, now is the time for the U.S. business community urge U.S. adoption of IFRS in the critical year of 2011.