

A US STRATEGY FOR IFRS ADOPTION

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Introduction

- The economic importance of accounting standards has been confirmed by recent controversy over 'mark-to-market' accounting. The SEC should favour accounting standards that best serve investors' information needs.
- Global harmonisation of accounting standards is in US interests, as a pioneering experiment in effective global financial governance and as a policy instrument against market fragmentation. The SEC should work towards adoption of International Financial Reporting Standards (IFRS) in the US before the end of the next decade.
- However, the SEC should insist on three conditions: clarification of the international standard-setter's mandate and an overhaul of its governance and funding framework, to better represent and empower its stakeholders; continuously high standards, which should not be compromised by the objective of achieving US GAAP convergence; and consistent enforcement across jurisdictions that have mandated or authorised the use of IFRS. Progress on these three dimensions is a precondition for the SEC to set a specific target date for the shift from US GAAP to IFRS.

The text of this policy contribution was sent on 20 April 2009 in response to the SEC's public consultation about its proposed rule "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers" (SEC File No. S7-27-08)



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Report for the U.S. SEC. Bruegel Policy Contribution

NICOLAS VÉRON, APRIL 2009

Attn. Elizabeth M. Murphy,
Secretary U.S. Securities and Exchange
Commission
100 F Street, N.E., Washington, D.C. 20549

Re: Request for Comment on U.S. Recognition of IFRS
Submitted Pursuant to Accounting Standards Board
Request for Comment on U.S. Recognition of IFRS
U.S. SEC. / IFRS. S7-27-08

EXECUTIVE SUMMARY

It is in the U.S. interest to favor success of the “global accounting experiment”, the endeavor to set common accounting standards for the entire world. SEC decisions about U.S. recognition of IFRS will have a significant impact on this project. The SEC must articulate a clear long-term vision for IFRS, compatible with political and economic realities both in and outside the U.S. It must also implement its vision flexibly enough to accommodate the multiple tensions in this policy area, which have been emphasized and exacerbated by the financial crisis as illustrated

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impact the prospect of other comparable endeavors in the future.

- This point is given additional importance by the current global economic environment, which considerably amplifies the potential effects of regulatory choices. We are close to a bifurcation point between global financial market fragmentation and the creation of stronger international financial policy frameworks³. Decisions by the SEC on IFRS recognition will be part of the balance of forces that determine the eventual outcome.

Given this, I recommend the following policy orientations:

- The SEC should act as a guiding principle of its policy in this area – as agreed upon by the U.S. in successive G20 summit declarations, on 15 November 2008 and 2 April 2009. In spite of the fact that the U.S. has not yet adopted IFRS or variations thereof, it should continue to support the process of convergence of national accounting standards with IFRS.

in view of the tensions between national and international accounting standards, the U.S. should continue to support the process of convergence of national accounting standards with IFRS, and should continue to support the process of convergence of national accounting standards with IFRS, and should continue to support the process of convergence of national accounting standards with IFRS.

supervisors, as has been emphasized in the declaration of the London Summit on 2 April, should not be interpreted as a dilution of standard-setting's orientation towards investors' needs. It should see to it that the long overdue revision of the IASB's conceptual framework does not introduce ambiguity on this point.

- The SEC should also foster a **global monitoring board** for the IASCF, which does not currently correspond to the IASCF's global responsibilities. The Monitoring Board established earlier this year is inherently dysfunctional, and marginal changes to its design cannot correct its fundamental flaws. The central idea of the Monitoring Board, which is to replicate the accountability channels of national standard-setters vis-à-vis national governments⁹, remains impractical as long as humankind does not submit itself to a global government. Furthermore, the concern to keep the Monitoring Board very small has led to key stakeholders being left out without apparent justification, and an absence of clarity of the criteria which led to the Board members' selection¹⁰. The SEC should promote a **global monitoring board** for the IASCF, which does not currently correspond to the IASCF's global responsibilities. This governing body should specifically entail a high degree of accountability to representatives of the investment community, in coherence with the previous paragraph about the organization's mandate, and also include representation of other stakeholder categories such as analysts, auditors, preparers, alongside national and regional regulators and political authorities. It should be governed by the IASCF's Constitution¹¹. It should also put an end to the fiction that the Monitoring Board's task can be artificially limited to Trustee appointments and reappointments (let alone to actual monitoring), which is contradicted by

the present Monitoring Board's already sweeping prerogatives¹². The governing body should, in particular, be sole competent to amend the IASCF's Constitution. These recommendations are not trivial to implement. They entail a degree of organizational complexity, and require a spirit of institutional innovativeness that the IASCF has not much

which they are prepared and adopted. Under this objective:

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