FP INVESTING

COMMENT

U.S. far from adopting global accounting standard

Why are auditors in Canada so keen on the idea?

AL ROSEN

The United States is not exactly known for bowing to peer pressure from the rest of the world, even when it means they must go it alone.

So when looking to a very similar situation like adopting a global accounting standard, it might be wise to take rumours of the United States falling quickly into line with a grain of salt.

This is not to say that there isn't a certain amount of U.S. interest in International Financial Reporting Standards (IFRS), especially from auditors, and also some companies and a few regulators. But such interest needs to be put into proper perspective.

For example, United Technologies is a member of the Dow 30 and operates in more than 200 countries. U.S. adoption of IFRS would allow the company to make certain acquisitions more easily, and would lower compliance costs, since many of its subsidiaries already file in IFRS or will need to eventually.

This naturally leads companies like UTC to say that IFRS acceptance in the U.S. seems inevitable. These should not be misinterpreted as a widely-held notion.

In addition, it is interesting to note that most companies do not perceive greater investor transparency as a significant benefit, or even a determined goal, of adopting IFRS. If anything, it gets mentioned only as a potential ancillary perk.

Looking to other supporters of IFRS, it is not surprising that U.S. auditors are more than happy to promote the new standards. After all, it would simply mean more revenue for them.

However, unlike in Canada, the accountants who must follow the rules in the United States (the auditors) have no monetary influence over the people who choose the accounting rules that must be followed. Therefore, it is actually relevant to consider the views of U.S. accounting standard setters like the Financial Accounting Standards Board and the Securities and Exchange Commission. Their mandates are to protect investors and the public interest.

With that in mind, SEC chairman Chris Cox certainly seems jazzed about IFRS. However, he is also a Republican political appointee so his presence past the 2008 presidential election is clearly in question.

In contrast to Mr. Cox, FASB head Bob Herz has called for a calmer approach to what is referred to as U.S. "convergence" with IFRS. By no means should the concept of "convergence" be confused with "adoption."

Therefore, one wonders why Canada's auditors forced the switch to IFRS so early on, given that our closest neighbour, largest trading partner, and biggest foreign investor is nowhere near ready to adopt IFRS outright.

The auditor fallback argument for moving to IFRS has always been that Canada is more ideologically aligned with international standards, supposedly because both Canadian GAAP and IFRS are principles-based. However, IFRS point man David Tweedie finally admitted recently that U.S. GAAP is also principles-based. So investors are right to question the integrity of the Canadian process so far, and to further ask what else they are being told that will eventually prove to be false.

Hopefully, previous columns have made it clear by now that IFRS is not any better for Canadian investors than our current rules, and even represents a step backwards in many regards. However, our federal and provincial politicians refuse to question our auditors' conflicted choice on the matter, and therefore, IFRS is coming, and will impact companies and markets much faster than most think.

The sooner investors realize this, the sooner they can move towards dealing with the complex changes and serious challenges that have been put upon them. In response, investors and advocates alike have to do much more than seek out the opinion of Canadian audit firms, given the less than forthright approach of the auditors thus far.

Financial Post

■ Al Rosen is a forensic accountant at Accountability Research Corp., www.accountabilityresearch.com.