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Sir David Tweedie, chairman of the International Accounting Standards Board. The use of International Financial Reporting Standards will be required in 2011 for Canadian publicly accountable profit-oriented companies.

COMMENT

IFRS raises some concerns

Large voids in accounting standards likely

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You're on your own, Jimmy. Go for it," is the advice of Sir David Tweedie when it comes to the significant challenge of actually implementing the vague and open accounting standards that comprise International Financial Reporting Standards (IFRS). Likewise, his suggestion of "do whatever you can," is not exactly the kind of guidance you would expect to improve accounting comparability among companies, is it?

Mr. Tweedie is an important figure in the IFRS world. He is chairman of the International Accounting Standards Board and the person most responsible for the creation of IFRS and its implementation in Europe. He was even knighted in the U.K. for his contributions to accounting. If anyone knows the skinny on IFRS, it's him.

So what gives? Isn't the big attraction of IFRS supposed to be that it creates accounting consistency around the world?

It is interesting to hear Mr. Tweedie tell the story of

how IFRS snowballed much faster than anyone expected and how it still needs vast improvement in the years to come. His views stand in obvious contrast to the "don't worry, be happy" mantra getting heavy play of late courtesy of Canada's auditors.

In an op-ed piece in the *Financial Post* a few months back, the chairman of the accounting standards board in Canada gushed over the thought of IFRS coming here in just a few years. He flatly dismissed the significant short-term challenges of IFRS, overstated its current use today, ignored the costly implementation, and strangely claimed that no discernible disruptions have been experienced with its use so far.

In reality, the primordial seed of IFRS was planted just seven years ago. What ensued was a furious challenge to create an entire set of accounting standards to meet a surprise European Commission directive for their rather sudden implementation less than four years later. By contrast, Canada and the United States have spent close to half a century refining our current accounting standards.

In order to meet the extremely tight deadline for European implementation, significant corners were cut

while IFRS was quickly cobbled together. Nevertheless, it got done. And the result, you ask? According to Mr. Tweedie, "you can't say we're ecstatic about them."

Listening to Mr. Tweedie's speeches, including one to the Empire Club in Toronto last month, it becomes clear that he is describing a theoretical idea, not an actual goal of IFRS. He posits a construct whereby companies from different corners of the world might account for similar transactions in the same manner.

It's true that worldwide adoption of the same accounting standards could, repeat, *could*, make that happen. However, dozens of other influential factors will mean that it won't happen.

Indeed, Mr. Tweedie has already done a very good job explaining to *Financial Director* why theoretical comparability will never become reality. "We won't get principle-based standards if several things happen: if people cheat; if they jump out of the sandpit and run naked around the beach, we'll stick them back in the sandpit by putting rules round it; if the accounting firms don't really internalize it and they appear in court, their forensic partner saying, 'We wouldn't have done this' — knowing full well he would have done! — then

the firms are going to say, 'Give us a rule so we're safe.'"

By adopting IFRS, Canada is deleting its current set of rules in order to start again from scratch, knowing full well that additional rules will need to be added in the future in order to combat human nature. In the interim, large voids in the accounting standards will exist, and companies will be all over the map in terms of their reporting to investors.

So it makes little sense for some legal and investment professionals to continue taking a benign attitude in the matter simply because other countries are adopting IFRS. This isn't a situation where you close your eyes and hope someone else takes care of your interests.

The widespread impacts on Canadian companies and investors must still be considered in light of our country's rather "unique" regulatory environment, and preparations must still be made to deal with the serious challenges that IFRS will pose.

By the way some people are acting you would think the new standards descended from upon high carved in stone. In reality, a bunch of overworked accountants scrambled like hell to meet an aggressive timeline. As Mr. Tweedie describes it, "when countries like those in the EU took International Accounting Standards, they did so with great courage — and total ignorance of what was in them." Now it's time for Canadian investors, politicians and legal professionals to decide whether ignorance will be their choice to escape responsibility.

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