

SEC's IFRS ROADMAP

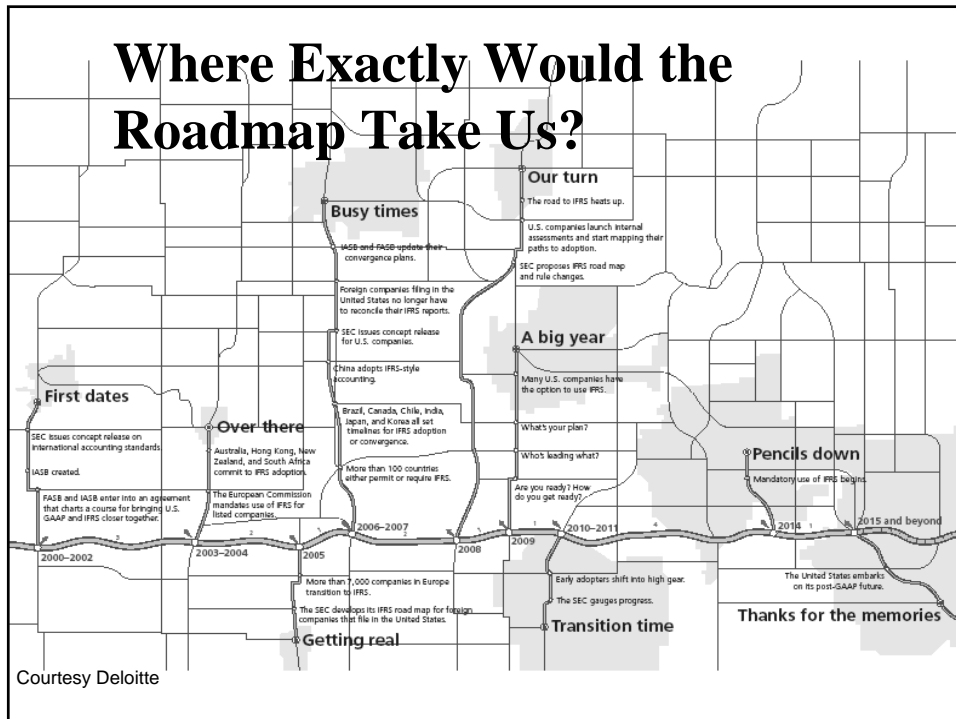
“Are We There Yet?”

Economy Plus Bonus Version

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2009 Regional Meetings
 Strategic Initiatives
 June 4, 2009 – Oklahoma City
 June 18, 2009 – Indianapolis
 Gaylen R. Hansen

Where Exactly Would the Roadmap Take Us?



Authoritative Direction?

- Paul Volcker, Chair of Obama Economic Recovery Advisory Board

“I do think we ought to be working toward international accounting standards and have them standard around the world under the general aegis of the International Accounting Standards Board, and there's been a lot of progress in that direction.”

- Mary Shapiro, Chair of the Obama SEC

“I will not be bound by the existing roadmap that's out for public comment.”

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Trip “Preparations”

- 2005 – European Union Begins Requiring IFRS
- 2007 – SEC accepts IFRS from foreign firms without reconciliation
- May 2008 – AICPA designates IASB
- September 2008 – FASB & IASB update and reaffirm 2002 Memo of Understanding to converge all major standards by 2011
- November 2009 – SEC “Roadmap” for U.S. firms

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But... There is Confusion Amongst the Troops

- **Universal Set of Auditing Standards a Possibility**
Compliance Week, November 25, 2008
- **Will a Tortoise Pace Win the Global Accounting Race?** *CFO.com, January 23, 2009*
- **New York CPAs Slam IFRS Roadmap**
CFO.com, March 6, 2009
- **IFRS v. U.S. GAAP: Which is More Corrupted by Politics** *The Accounting Onion, March 18, 2009*

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But... There is Confusion Amongst the Troops

- **Enthusiasm for IFRS Roadmap Fading Fast**
Compliance Week, March 24, 2009
- **Guessing the Costs of IFRS Conversion**
CFO.com, March 30, 2009
- **IFRS & U.S. GAAP; Where Do We Stand?**
CFO.com, March 31, 2009

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But... There is Confusion Amongst the Troops

- **EU Demands Accounting Change to Match US, Aid Banks**

Bloomberg, April 3, 2009

- **SEC Chairman Mum on Accounting Issues**

CFO.com, April 7, 2009

- **CFOs on IFRS: Forget About IT**

CFO.com, April 17, 2009

- **The Hard Sell - SEC in a Quandary Over Its Push for IFRS**

The Investment Professional (New York Society of Securities Analysts, April, 2009)

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So... Why Should State Boards Care?

- **IFRS has and is being used by CPAs**
- **UAA does not presently address IFRS**
 - **GAAP referred to in Rules 3, 7, 10**
 - **GAAP not *explicitly* defined**



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What Does the UAA Say?

UAA Rule 10-3 – *Applicable Standards*

A licensee shall follow the standards, as applicable under the circumstances and at the time of the services, set forth in this section in providing professional services. In addition to the applicable standards set forth below, a licensee shall follow standards issued by other professional or governmental bodies **including international standards setting bodies with which a licensee is required by law, regulation or the terms of engagement to comply.** A licensee shall comply with all applicable standards, including but not limited to the following:

(i) **A licensee shall not express an opinion on financial statements** unless the licensee complies with the Statements of Financial Accounting Standards, together with those Accounting Research Bulletins and Accounting Principles Board Opinions which are not superseded by action of the FASB, including subsequent amendments and editions.

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Roadmap Timetable

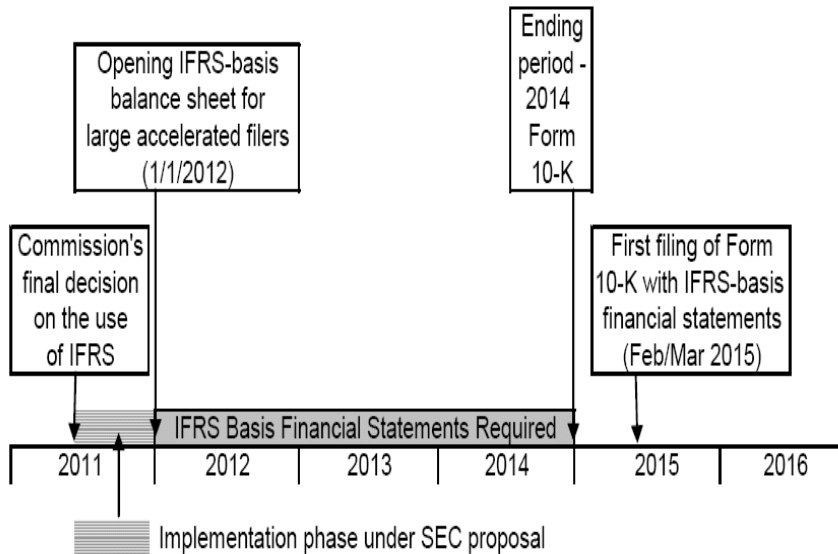
- **2010 – Option of Early Election for 20 Largest Companies in Selected Industries**
- **2014 – Large Accelerated Issuers**
- **2015 – Smaller Accelerated Issuers**
- **2016 – Small Issuers**
- **SEC to make a Decision in 2011**



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When Exactly? ...



But ONLY If.....

■ SEC Milestones for 2011 Decision

- Improvements in accounting standards
- XBRL tagging ability with IFRS
- IFRS education and training
- Accountability and funding of IASCF
- Experience of early adopters
- Timing of future SEC rulemaking
- Development of implementation guidance



A Pitch From The Advocates

- Globalization
- “Single Set of High-Quality Accounting Standards”
- Comparability
- Risk of Isolation



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A Swing From The “Detractors”

- U.S. GAAP IS the Gold Standard
- IFRS Untested, Incomplete
- Comparability
- Lack of Regulatory Oversight
- Funding and Independence of IASB



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Is U.S. GAAP the Gold Standard?

“We have the lowest cost of capital, because we have the strongest system of investor protection in the world.”

- Charles D. Niemeier, PCAOB Board Member
NYSSCPA Speech September 10, 2008

“This reduction in the cost of capital for non-U.S. companies that list their securities in the United States translates into a premium on their respective valuations that can reach as high as 37 percent more than their valuations would have been in their home market.”

- Charles D. Niemeier, PCAOB Board Member
American Competitiveness in International Capital Markets
September 30, 2006



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Largest Stock Exchanges Domestic Equity Market Capitalization

Exchange (Prior Year Rank)	Billions of U.S. Dollars	
	December 2007	December 2008
1. NYSE Group (1)	15,651	9,209
2. Tokyo Stock Exchange Group (2)	4,331	3,116
3. NASDAQ Stock Market (4)	4,014	2,396
4. Euronext (3)	4,223	2,102
5. London Stock Exchange (5)	3,852	1,868
6. Shanghai Stock Exchange (6)	3,694	1,425
7. Hong Kong Exchanges (7)	2,654	1,329
8. Deutsche Borse (9)	2,105	1,111
9. TSX Group (8)	2,187	1,033
10. BME Spanish Exchanges (11)	1,799	984
Total	47,989	25,538

Source: World Federation of Exchanges, *2008 Annual Report and Statistics*.

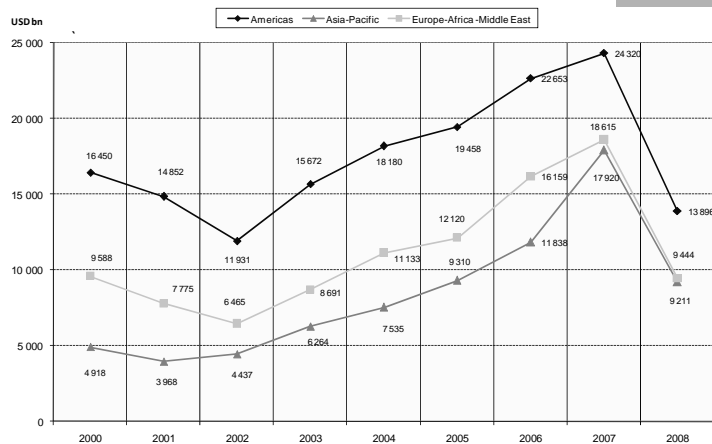
Market Capitalization Major U.S. Exchanges

Exchange	2003	2004	2005	2006	2007
NYSE	11,329	12,708	13,632	15,421	15,651
NASDAQ	2,844	3,533	3,604	3,865	4,014
AMEX	93	83	201	283	258
U.S. Total	14,266	16,324	17,438	19,569	19,922
WFE Total	31,309	37,245	42,157	51,749	62,746
Percentage U.S.	46%	44%	41%	38%	32%

Billions of U.S. Dollars

Source: World Federation of Exchanges, *Annual Report and Statistics*.

Market Capitalization By Time Zones



WFE total (USD bn)	2000	2001	2002	2003	2004	2005	2006	2007	2008
	30,956	26,595	22,833	30,627	36,848	40,888	50,650	60,854	32,551

Source: World Federation of Exchanges, 2008 Market Highlights.

Worldwide IFRS Usage (Countries/Jurisdictions)

	Listed Companies		Unlisted Companies	
	Count	Percentage	Count	Percentage
Not Permitted	33	20%	35	21%
Permitted	23	14%	38	22%
Required for Some	5	2%	23	14%
Required for All*	89	53%	29	17%
No Stock Exchange/ No Info	19	11%	44	26%
Total	169	100%	169	100%

* Includes 31 countries that have jurisdictional versions of IFRS, e.g. "as adopted by EU/NZ," 18% of the 169 total countries and 35% of the 89 countries requiring IFRS.

Source: Deloitte's IAS Plus as of March 24, 2009. See <http://www.iasplus.com/country/useias.htm>

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Roadmap Comment Letters

- Timing
- Cost of Adoption
- Governance of the IASB
- Quality of IFRS
- Converge v. Convert (Replace GAAP)



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Summary of the Comment Letters

Constituency *	Favor		Oppose		Primary Focus		
	Mild	Strong	Mild	Strong	Cost	Govern	Standards
Regulators	0	0	2	2	2	1	4
Investors	2	0	0	4	2	4	6
Large Public Companies	10	18	12	35	48	13	35
Medium Public Companies	0	0	2	7	8	2	8
Private Companies	0	2	1	7	0	1	1
Academia	1	0	1	5	4	0	5
Professional/Trade Assn	8	0	9	6	9	7	12
Individuals	1	4	1	7	6	0	9
Totals	22	24	28	73	79	28	80

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* Excludes students and others that could reasonably appear to have a conflict of interest

Some Favorite Comments ☺

Regions is surprised by the dramatic change in direction on this issue by the Commission during 2008. The dialogue swiftly moved from a discussion regarding elimination of a footnote reconciliation for a small number of foreign issuers to consideration of a wholesale requirement for all public companies to transition to IFRS. – *Regions Financial*

The Roadmap would permanently impair the SEC in its responsibility to protect U.S. investors and serve the public interest... Consequently, the SEC would apparently even lack the authority to recognize the IASB as a standard-setter.

– *Michael Pakaluk, PhD*



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Some Favorite Comments ☺

The U.S. Congress should also ask for the completion of an independent analysis of the “real” benefits and projected costs of this type of change... and not let it be just an academic exercise for the sake of change, as currently advocated by a subsidiary U.S. government agency. - Allergan



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Some Favorite Comments ☺

If I conservatively assume that U.S. public companies have aggregate annual revenues in excess of \$12 trillion (based on a table compiled by the SEC listing total U.S. public company revenues at \$11.752 trillion as of March 31, 2005 and extrapolated forward for three years using a 3% growth factor), U.S. public companies will ultimately incur total one time costs over an intense two to three year integration period of approximately \$60 billion to \$120 billion in order to adopt IFRS in the United States. - Allergan

Note - Accenture estimates that the cost of adoption will range from .731% to .103% of revenue based on a March 2009 study, *Preparing for International Financial Reporting Standards*. The Roadmap cites a study of the Institute of the Chartered Accountants of England and Wales of .05% to .125% as the EU cost of implementation in 2005.

**\$60,000,000,000
to
\$120,000,000,000**

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An (Ignored) 2007 Comment ☹

Given the long and well documented history that ultimately led to an independently financed FASB, it is remarkable that the Commission would so quickly conclude that shifting this critical role to a foreign-controlled body is in our national interest without public analysis and discussion of the pros and cons. Such dialogue should be unfettered of one-off questions – e.g. “*Should the IFRS to U.S. GAAP reconciliation be discontinued?*” or, “*Should domestic issuers have the option of electing IFRS versus U.S. GAAP?*” Those questions leap frog a more relevant question: “*Does the IASB stand up to public scrutiny?*”

Gaylen R. Hansen
Comment Letter to the SEC
September 24, 2007

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So Where to Next?



- Is the Roadmap a Dead End?
- More Studies (GUARANTEED)
- And What About Outsourcing?



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Distant Echo

The great rule of conduct for us, in regard to foreign nations, is, in extending our commercial relations, to have with them as little political connection as possible...

Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rival ship, interest, humor, or caprice?

Harmony, liberal intercourse with all nations, are recommended... But even our commercial policy should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences;... There can be no greater error than to expect or calculate upon real favors from nation to nation. It is an illusion, which experience must cure, which a just pride ought to discard.

It is our true policy to steer clear of permanent alliances with any portion of the foreign world;...

*George Washington
Farewell Address
September 19, 1796*

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Proposed Federal Legislation (Economy Plus Add On Topics)

- **Federal Accounting Oversight Board**
- **Oversight of Broker Dealers**

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Federal Accounting Oversight Board (H.B. 1349)

- **Duties**
 - **Oversee GAAP for Federal financial regulatory agencies**
- **Membership**
 - **FED Chair**
 - **Treasury Secretary**
 - **SEC Chair**
 - **FDIC Chair**
 - **PCAOB Chair**
- **Funding = Accounting Firms**

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SEC. 2. THE FEDERAL ACCOUNTING OVERSIGHT BOARD

- The FAOB shall approve and oversee accounting principles and standards for purposes of the Federal financial regulatory agencies and reporting requirements required by such agencies.
- The FAOB shall consider—
 - Extent to which various accounting principles and standards resolve questions concerning liquid and illiquid instruments;
 - Whether certain accounting **principles and standards should apply to distressed markets differently** than well functioning markets;
 - **Balance between investors' need to know** a value of a company or financial institution's balance sheet at any given time versus financial regulators' responsibility to examine a company or financial institution's capital and value on both a liquidation and going concern basis;
 - The **need for accounting principles and standards to take into account the need for financial institutions to maintain adequate reserves** to cover expected losses from assets held by such institution;

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Take GAAP Authority from SEC?

SEC. 4. TRANSFER OF STANDARD SETTING BODY OVERSIGHT AUTHORITY FROM THE SEC TO THE FAOB.

(a) SECURITIES ACT OF 1933.—Section 19(b) of the Securities Act of 1933 (15 U.S.C. 77s(b)) is amended—

- (1) by striking “Commission” each place it appears and inserting “Federal Accounting Oversight Board”;
- (2) by striking “subsection (a) and under section 13(b) of the Securities Exchange Act of 1934” and inserting “the Federal Accounting Oversight Board Act of 2009”; and
- (3) by striking “subsection (a) and section 13(b) of the Securities Exchange Act of 1934” and inserting “the Federal Accounting Oversight Board Act of 2009.”

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Oversight of Broker Dealers (H.B. 1212) aka the Madoff Modifier

- February 19th – PCAOB requires registration of auditors of broker dealers
- Amends and extends Sarbanes-Oxley Act
 - Audits in accordance with PCAOB standards
 - PCAOB Inspection
 - PCAOB Discipline
- Accounting Support Fees
 - Assessed to Broker Dealers based on net capital

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Thanks for Listening

Opinions expressed in this presentation are solely those of the presenter and do not necessarily reflect the views or policies of NASBA or its leadership.

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"Add on?! I'm tired of pumping cash into this money pit!"

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