International Standards and Regulation
NASBA Regional Meetings
June 12 and 19, 2008

The U.S. state boards of accountancy--that is, NASBA's member boards--represent 646,000 accountants and 55 regulatory boards, which, as David Costello observed this morning, constitutes the largest accounting regulatory body in the world. It is essential that this body, whose members are mandated to protect the public interest, play a proportionate role in the deliberations, debates, and determinations that influence the consideration and setting of international accounting standards. To that end, it is incumbent upon NASBA to raise our visibility in the international arena, to enlighten and educate as to the roles we play in setting and enforcing standards, and to become a stronger influence in the field of international regulation

I. This is the rational that Chair Wes Johnson when he formed the International Regulators Committee in January 2007.

   A. Committee members, in addition to me as chair, include:

      1. Charles Calhoun, FL
      2. John Carden, AL
      3. Robert Gray, NY
      4. Gaylen Hansen, CO
      5. Mark Harris, LA
      6. Wes Johnson, FL
      7. Grace Lopez-Williams, GA
      8. William Treacy, TX

   B. NASBA staff are Linda Biek, and Maria Caldwell

   C. Included in your materials is a white paper prepared by the Committee entitled Internationalization and Boards of Accountancy. I will be loosely following this outline.

II. If I was sitting in the audience today, listening to this presentation, I might have two questions on my mind.

   A. Is it really that important that NASBA has allocated time in a Regional meeting to talk about internationalization of the accounting profession?

      1. One of NASBA's roles in support of state boards is to bring to the boards issues that are on the forefront of accounting regulation.

a. In 1997, the first Regional meeting I attended, NASBA presented a new concept called substantial equivalency and look where we are today with 48 of 55 jurisdictions being SE.

b. Additionally, 26 states have adopted mobility provisions based on SE.

2. As is stated as the conclusion of the white paper:

As state boards of accountancy remain true to their fundamental mission of public protection, it is important to anticipate the changing landscape and make those changes that continue to place the public interest above all other interests. State boards can and must be engaged in the internationalization of the global economy. If we insist that these issues are not ours, we will become irrelevant in our isolationism. If we are engaged in the process, we will have the ability to contribute to the solutions. In either event, the rest of the world is not going to wait for us to get on board.

B. The second question is why is a tax guy who last read an accounting standard in 1969, that being APB 15, giving a presentation that includes a discussion of International Financial Reporting Standards?

1. Even though I am chairman of the committee and I could not get Gaylen Hansen to do it.

2. Everyone involved in selecting me to do this figured that if we could get it to a point where I could understand the issues, I should then be able to communicate with those of you who are also challenged by them.

III. International Financial Reporting Standards (“IFRS”).

A. Over the years, there have been a number of factors that demonstrated the need for a single set of <u>high quality</u> international financial reporting standards.

1. The need for across international borders comparability of financial information.

2. A desire on the part of multinational companies to reduce the cost and complexity of complying with numerous different national standards.

3. Increasing globalization and speed of commerce.

    a. Don't these first 3 sound like our arguments to state legislatures in favor of CPA mobility?

4. The EU's fairly recent mandate that member countries adopt IFRS.

5. The US desire to retain status as the premier capital market.

6. The international appeal of a set of standards for financial reporting that is principles-based rather than rules-based.

B. SEC has become a supporter and enabler of internationalization of accounting standards.

1. SEC voted in November 2007 to allow foreign issuers to file financial statements using IFRS without reconciliation to US GAAP.

2. This is a likely precursor to the acceptance of IFRS for US issuers.

3. However, there is a general requirement that the SEC do a cost/benefit analysis before requiring adoption of new standards.

C. Current IFRS have been developed by the International Accounting Standards Board ("IASB").

1. Originally formed in 1973 as the International Accounting Standards Committee.

    a. By 1982, sponsoring members of IASC comprised all of the professional accountancy bodies that made up the membership of the International Federation of Accountants.

    b. On April 1, 2001 the newly constituted, "full and completely autonomous" IASB assumed accounting standard setting responsibilities from its predecessor the IASC.

2. The IASB is made up of 15 Board members appointed based on professional competence and practical experience, not geographical criteria.

    a. Two of the 15 members are part-time (a professor and a Big-4 partner).

b. There is no apparent requirement that Board members relinquish their ties to their prior employers.

c. 50-60% of the total funding of the IASB comes from large corporate and major audit firm contributions.

d. The IASB is subject to geopolitical pressures, e.g. IFRS must be approved by the EU before being accepted as standards applicable to the members of the EU.

D. The AICPA Governing Council in its May 2008 meeting voted to designate the IASB as an international accounting standard setter for purposes of establishing international accounting and reporting principles as required under Rules 202 and 203 of the AICPA's Code of Professional Conduct.

1. IASB joins the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Public Company Accounting Oversight Board and the Federal Accounting Standards Advisory Board as designated bodies under Rules 202 and 203 to promulgate technical standards.

2. The Council approved IASB as a standard setting body using five criteria developed by the AICPA for purposes of designating such bodies and based on a recommendation from a Task Force appointed to evaluate the IASB on these criteria:

a. *Independence* – The body should be independent from the undue influence of its constituency.

b. *Due Process and Standards* – The body should follow a due process that is documented and open to all relevant aspects of alternatives. The body's aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.

c. *Domain and Authority* – The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies.

d. *Human and Financial Resources* — The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.

e. *Comprehensiveness and Consistency* – The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

f. The AICPA Task Force concluded that the IASB appeared to meet all criteria with the exception of *“Domain and Authority.”* In addition, it identified potential issues with respect to IASB meeting the *“Human and Financial Resources”* criterion but believed there were mitigating factors to justify concluding that the criterion was met.

g. Given the sources of a significant portion of its financial resources, i.e. the very firms who will have to comply with the standards, I would also question whether the IASB meets the independence criteria.

E. IFRS are principles-based accounting standards occupying approximately 2,000 pages of authoritative literature.

1. As principles-based standards are implemented, there is increasing room for auditor judgment to come into play, which is what CPAs are really paid to do - exercise their judgment.

F. At the present time, IFRS apply only to public companies.

G. One of the weaknesses of the IASB was pointed out in a March 7, 2008 NY Times article by Finance and Economics Commentator Floyd Norris when he said “While the London-based International Accounting Standards Board writes the rules, there is no international organization with the power to enforce them and assure that companies are in compliance.”

1. The International Organization of Securities Commissioners (“IOSCO”) does have some oversight responsibility over the development of IFRS, although its enforcement power appears to be more limited than that of the SEC.

IV. Comparison to US GAAP

A. US GAAP is promulgated by the Financial Accounting Standards Board.

1. FASB has a 7 member board all of whom are full time members who have relinquished all ties to their former employers.

2. Funding for the operations of the Board now comes largely from fees assessed issuers under the Sarbanes-Oxley Act of 2002.

B. GAAP are rules-based accounting standards occupying upwards of approximately 25,000 pages of authoritative literature, or so I am told.

1. This causes a certain degree of heartburn to some members of the international community who do not want to see principles-based IFRS "corrupted" by rules-based GAAP.

C. At the present time, US GAAP applies to both public and non-public issuers.

D. Finally, the SEC has significant oversight authority over the FASB and the standards that it promulgates.

V. All the talk today is about the eventual convergence of IFRS and GAAP

A. In 2002, FASB signed the Norwalk Agreement with the International Accounting Standards Board in which both parties *acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting*.

B. The general feeling among parties much more knowledgeable about this topic than I is that convergence of IFRS and GAAP is more likely the replacement of GAAP by IFRS, at least for public companies.

1. In a speech May 13, 2008, Leslie Seidman, a member of FASB, said "It would have to be an absolute emergency in US financial reporting for us (the FASB) to add a new FASB-only project at this point, something that wasn't already in the pipeline.

C. It is considered likely that the SEC will allow or require domestic public company issuers to report using IFRS as early as 2013.

VI. So, what does all this mean to US Boards of Accountancy and to the other members of the international regulatory community?

A. First and foremost, we have to consider that the IASB developed IFRS without oversight by any US or international regulatory bodies.

1. In the US the determination of whether financial statements are presented in conformity with GAAP as reflected in accounting standards promulgated by appropriately designated standard setting bodies is contained in the statutes and rules of the 55 boards of accountancy.

    a. If not specifically set out in the rules, this concept can usually be found in the Board's Code of Professional Conduct.

2. The AICPA has now revised its Code of Professional Conduct to include the IASB as a designated standard setting body for purposes of establishing international accounting and reporting principles.

3. The AICPA Code of Professional Conduct has been adopted in whole or in part in the rules of a significant number of boards of accountancy.

4. Thus, IASB as a standard setter may have found its way into a number of states' rules without NASBA and boards of accountancy independently performing an assessment of the IASB as a standard setter. That independent assessment could likely incorporate other criteria beyond what the AICPA has considered.

    a. The underlying political autonomy and independence in fact and appearance of the IASB.

    b. The acceptability of the multiple national versions of IFRS.

    c. The willingness and level of responsiveness of the IASB to national and local regulatory authorities.

    d. The ultimate regulatory oversight of the promulgation of IFRS by the IASB, i.e. the SEC.

    e. The potential to create some form of international organization(s) with the power to enforce and assure that companies are in compliance with IFRS.

B. It is still unclear whether IFRS would, or should, be the standard for non-public companies.

    1. Likely to be required by the SEC for US public companies as early as 2013.

2. Boards of accountancy should have a significant say in the adoption of IFRS for non-public companies.

   a. Neither FASB nor the AICPA should be allowed to make such a fundamental decision without guidance and input from NASBA and BOAs.

   b. There is also the possibility that there may exist for some time a bifurcated reporting system - BIG IFRS - little GAAP?

C. The possible convergence of auditing standards as presently developed by the AICPA's Auditing Standards Board and IFAC's International Auditing and Assurance Standards Board ("IAASB"), particularly as relates to the audits of non-public companies, will require cooperation with NASBA and BOAs.

D. The adoption of IFRS and possibly international auditing standards will necessitate a review by NASBA and BOAs of the content of the CPA examination and educational curricula requirements.

   1. The AICPA is already discussing inclusion of IFRS in the CPA examination at some point.

   2. IFRS is, to my knowledge, not yet being included in the curriculum of many, if any, colleges and universities; however academia is beginning to discuss this topic.

E. Finally, of significant interest to boards of accountancy will be the regulation of international cross-border practice. Just as BOAs are currently addressing intra-US mobility issues, internationalization will require NASBA and BOAs to address international mobility issues. To do this Boards will have to begin the process of:

   1. Reconciling ethics standards between those promulgated by IFAC's International Ethics Standard Board for Accountants ("IESBA"), those of the AICPA's Professional Ethics Executive Committee and perhaps further ethics standards developed by NASBA in the UAA rules.

   2. Reconciling our requirements for entry into the profession (the three E's) with the wide range of entry requirements found in the rest of the world.

a. The US tends toward an education based model, while much of the rest of the world uses a more experiential/apprenticeship model.

3. Reconciling our requirements for demonstration of continuing individual and firm competence through CPE and compliance assurance/quality review programs with the significantly different requirements that exist in much of the rest of the world.

4. Reconciling the licensing and permitting options for foreign accountants and firms to create an international mobility structure that is comparable to the one emerging between states in the US.

a. We are presently developing Mutual Recognition Agreements with countries that have entry requirements substantially equivalent to those in the US on a bilateral country by country basis.

b. The need will come for the development of multilateral agreements to allow greater international mobility, perhaps using a much broader concept of substantial equivalency.

VII. The International Regulators Committee has been charged with the responsibility of educating boards of accountancy on these emerging (emerged?) issues and reaching out to the international accounting regulatory community to begin this reconciliation process.

A. The Committee will be coordinating presentations at NASBA Regional and Annual meetings to keep BOA members aware of the issues related to internationalization of the accounting profession.

B. The initial reach out to the international regulatory community will occur at the first, hopefully annual, Forum of International Accounting Regulators ("FIAR" pronounced fire) to be held in conjunction with the NASBA Annual Meeting in Boston.

1. The FIAR will start with the Annual Meeting gala on Tuesday evening October 28, 2008 and continuing with a joint plenary session featuring representatives of IFAC and the PCAOB on Wednesday morning.

2. The Wednesday morning session will be the end of the NASBA Annual Meeting and the beginning of the FIAR.

3. The FIAR will continue Wednesday afternoon until mid-afternoon on Thursday October 30th.

C. The cost of the FIAR (excluding travel and hotel expenses) will be covered by NASBA, so we encourage BOA members at the Annual Meeting to extend their stay for an additional day and ½ to gather around the FIAR in Boston.

1. International regulators attending the FIAR will also be invited to attend the full NASBA Annual Meeting if they wish, again with NASBA covering the meeting costs.

VIII. We'll see you in Boston!