

Accounting Without Borders Has Its Time Come?

What do companies as diverse as IBM Corp., Credit Suisse Group and Intel Corp. have in common? While all of these three leading companies file their financials according to U.S. generally accepted accounting principles (GAAP) as their primary filing choice, they are also significantly impacted by the use of International Financial Reporting Standards (IFRS) in a variety of jurisdictions around the globe.

And, while all these three multinationals recognize the potential benefits of one consistent set of accounting principles around the globe, if given the choice today, not one of them would quickly make the move from U.S. GAAP to IFRS. At least, not yet.

In 2001, Credit Suisse Group, a Switzerland-based company that is listed on the Swiss Stock Exchange, considered the choice it was given by the exchange of applying either IFRS or U.S. GAAP. Since IFRS was, in a

sense, still under construction at the time, and since the company also lists in the U.S., it chose U.S. GAAP for its primary set of accounting standards, says Rudolf A. Bless, Credit Suisse's group chief accounting officer.

He says that by 2005, when much of local European and Asian statutory regulations required either full or partial IFRS implementation, Credit Suisse applied IFRS in dozens of its subsidiaries in these areas. Credit Suisse has operations in 50 countries, with over 150 legal entities in more than 20 countries that report in accordance with IFRS.

In late 2004, IBM convened a centralized project team at its Somers, N.Y., corporate headquarters consisting of representatives from accounting, tax, treasury and legal representation from inside the company, as well as its external auditors, both for U.S. GAAP and statutory filings around

By
**Ellen M. Heffes &
Cheryl de Mesa
Graziano**

the world. Additionally, external consultants were hired, primarily to protect the independence of its internal auditors.

Next, a steering committee was formed with the senior members of the key functions — treasurer, chief accountant, senior tax executive, senior legal counsel — to provide overall corporate governance. The committee guided a team, led by Senior Program Manager, Accounting Practices Aaron

Anderson, which was charged with consistent execution across the company's geographic areas.

IBM files consolidated financial statements and SEC filings based on U.S. GAAP. Its worldwide accounting operations — performed through regional accounting centers located in various places around the globe — are primarily focused on producing U.S. GAAP-based financial results; use of IFRS is primarily for statutory reporting. Currently, says Gregg L. Nelson, vice president, Accounting Policy and Financial Reporting, “we do not have any requirements for IFRS outside of statutory reporting, be it either country-specific or tax-filing requirements.”

A benefit derived from the process, says Nelson — who refers to IBM's approach as a “corporate push model,” versus “letting it happen in each individual country” — was eliminating surprises and ensuring consistency in application.

Intel also applies IFRS where required by local regulatory authorities. This includes application of full IFRS in countries such as the Philippines, Australia, South Africa, Hong Kong and Singapore, and partially

There's a lot more to International Financial Reporting Standards than simply accounting. As multinationals file in IFRS around the world and U.S. companies consider IFRS for the U.S., every aspect of the business will be affected. Here's what three leading global companies are thinking — and doing.

adopted IFRS in the U.K. and Israel, as “pursuant to the convergence roadmaps in those countries,” says Jim Campbell, Intel's vice president and corporate controller.

Accounting Becomes More Interesting

Most finance executives have likely been spoon-fed on the concept that in business, “change is constant, so just accept it and go with it.” But some have likely taken small comfort in knowing that accounting was, well, accounting. But now that the lexicon for accounting language includes IFRS, in addition to the various country-level GAAPs, it's clear that it's more than just simply *accounting*.

Developed by the International Accounting Standards Board (IASB), IFRS are currently accepted — to some degree — in about 100 countries. IASB expects this number to climb to over 150 countries by 2011.

Additionally, in a widely anticipated move, the U.S. Securities and Exchange Commission (SEC) on July 2 released a proposed rule for comment that would allow foreign filers of public companies to drop the reconciliation to U.S. GAAP require-

ment for filing financial statements in the U.S. and file according to IFRS, as published by the IASB.

Later in July, the SEC voted unanimously to publish a Concept Release for public comment on allowing U.S. issuers to drop U.S. GAAP and prepare their financial statements using IFRS, as published by the IASB. *Accounting is indeed*

changing.

SEC Chairman Christopher Cox said that “having a set of globally accepted accounting standards is critical to the rapidly accelerating global integration of the world's capital markets.”

Comments on the Concept Release will be due 90 days following its publication in the *Federal Register* (not published by press time).

In conducting “business as usual,” most U.S.-based global companies already use IFRS for statutory filings of their foreign operations, precipitated primarily by the large number of countries that supported a move to IFRS in 2005.

Implementation Surprises, Benefits, Issues, More

Though application is currently concentrated in areas where it is mandatory, IBM is looking to IFRS to facilitate more streamlined accounting operations and standardized accounting policy in countries where IFRS adoption is optional. “We are also looking at each one of those countries individually to see if they provide an opportunity for standardization or efficiency in doing a con-



“Changing a GAAP in a country is more than just accounting, and involves many other areas in the corporation that include how your company is viewed and reported on in that jurisdiction.”

Gregg L. Nelson, vice president, Accounting Policy and Financial Reporting, IBM Corp.

version ahead of any mandatory requirements,” says Nelson.

Anderson explains that IBM has identified approximately 26 countries that currently require IFRS or its equivalent; another 22 countries where the local GAAP has some minor differences, but is basically IFRS; and an additional 11 countries that give the option of following IFRS (for example, in the U.K., you can follow U.K. GAAP or IFRS; there’s a similar choice in Switzerland, Ireland and some others). So that’s approximately 59 countries outside the U.S. where “we believe there’s potential to standardize our statutory reporting process around IFRS,” says Anderson.

Similarly, in order to reduce operational risk, Bless says Credit Suisse is applying “full-fledged IFRS; we’re not taking any shortcuts.” That is, the company is applying the full set of standards, rather than considering the 13 IFRS exemptions permitted by IFRS 1, *First-time Adoption of IFRS*.

Furthermore, the company made

(FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and the comparable international standard, IFRS 39, *Financial Instruments: Recognition and Measurement*.

Bless says that once a position is decided with a particular accounting treatment, it can then be consistently communicated across all the entities. In doing so, he says, “we’ve tried to organize in an efficient and effective way with the least amount of operational risk so as to get the numbers right and consistently applied across legal entities when they do not even consolidate together.” Over time, he expects they will be able to reduce the number of standards by doing away with the individual country GAAPs.

Hurdles in the Process

While convergence may sound like nirvana, in reality, getting there presents some hurdles. Maxwell J. Downing, Intel’s IFRS policy controller, notes that in mid-2006, when Intel “really began

hasn’t proven to be entirely accurate, due to local tailoring. An example of this, he says, is Chinese accounting, characterized as a movement towards IFRS. It’s true, says Downing, the standards are an improvement and more aligned with IFRS than Chinese GAAP was in the past. “But they’re only generally aligned to IFRS,” he says. “And, we’re finding this to be fairly common around the world.”

China is a good illustration of where IFRS is, in some respects, a movement towards a more globally recognized and acceptable standards — but at the same, it time illustrates the latitude framed around the degree of the principles-based character of IFRS.

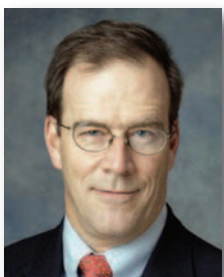
Campbell explains, for example, that in the Chinese literature — which is representative of other countries and entities that are adopting IFRS as well — is the Chinese Accounting Standard ASBE 7 [Accounting System for Business Enterprises]. The literature quotes: “There is no separate equivalent standard under IFRS. However, the standard is generally consistent with the principles in IAS 16.”

“Generally consistent,” he says, is the operating phrase as it gets more globally adopted. Yet, he adds, “Degree of comparability remains to be seen.”

Besides IFRS considerations internally, companies need to be concerned with how their audits are conducted and how external auditors will respond to the additional needs for information, staff, training, etc. Recall the confusion, lack of guidance and shortage of knowledgeable staff companies faced when first implementing Section 404 of the Sarbanes-Oxley Act of 2002.

Intel’s Campbell’s concern is not so much with audit firms’ technical capability around IFRS, but rather about getting the right answer. “When we look for interpretive guidance, there isn’t a U.S. national office open for IFRS at this point, or if there is, it’s kind of gradually emerging.”

Thus he describes it as a triage between the issuer — whatever coun-



“When we look for interpretive guidance, there isn’t a U.S. national [audit firm] office open for IFRS at this point, or if there is, it’s kind of gradually emerging.”

Jim Campbell, vice president and corporate controller, Intel Corp.

a conscious decision, where possible, to “align our treatment and application — our interpretation of IFRS — to be the same as U.S. GAAP.” Bless stresses “where possible,” since there are often “still a few differences between the two [IFRS and U.S. GAAP] that you can’t get around.”

One example where this has worked quite well is with Financial Accounting Standards Board

to focus our efforts on trying to characterize the opportunity that IFRS would allow,” the company also looked at standardizing policies, training and procedures. “Our focus stemmed from an interest that IFRS would be ‘one-size-fits all’ [that] would allow us to standardize and simplify and potentially centralize many of our statutory-related activities.”

In retrospect, he comments, this

try the auditor is based in — the particular IFRS interpretive issue and the U.S. audit firm working it through. That triage and dialogue, he says, “has been a bit of a process of discovery.”

It's Not Just About the Accounting

As to where Intel is in the process, Simon Howell, Intel's European accounting controller, characterizes it as the “investment stage.” He says there is the opportunity long-term to improve quality, standardization and possibly centralization and efficiency.

To date, he says, the company has seen some benefits on its long-term path where it has been able to work in a more centralized format working through one particular area around shared-based payments. This, he says, is perhaps “a first stage of many long-term benefits we see building out as we see momentum grow, where we can build around a standardized, global operating model.”

Changing a GAAP in a country is more than just accounting, explains IBM's Nelson, and involves many other areas in the corporation that include how your company is viewed and reported on in that jurisdiction. “You have to keep that perspective in all of the constituencies you have, both internally and externally,” he says.

Second, there's a cost of convergence, in terms of resources, time and audit fees — and even some system costs. However, Nelson indicates the costs can be overcome if you can drive economies of scale and then gain improved quality control in the overall reporting process. “That's certainly been an objective in our company as we've gone through this end game, which is to get centralized reporting, both for IFRS or statutory reporting similar to what we have for U.S. GAAP reporting.” That centralized process, he notes, has served IBM well over the better part of the last decade.

Switching from U.S. GAAP is a one-time choice, so you have to make sure you analyze all areas, cautions

“You have to move the front office, the traders, the deal-makers — from playing the game according to one set of scoring rules to a new set, and there are fundamental differences between the rules with respect to documentation requirements.”

Rudolf Bless, group chief accounting officer, Credit Suisse Group



Nelson. “One thing our tax executives would say: ‘Make sure you understand the impact on possible tax payments when [you] change to GAAP for statutory reporting in a particular country.’”

He concludes, “We think the centralized team approach and a proactive approach — where you actually get in the mud with your countries and guide them through the process — is the right way to go.” Not only will it ensure a successful conversion in that individual country, he says,

their U.S. GAAP information to IFRS in all the major areas of differences. “We expect by the end of this year to have streamlined the statutory reporting quite significantly,” he adds.

And, this movement, he notes, can be quite beneficial. What Anderson characterizes as a “perfect storm” of converging U.S. GAAP and IFRS “has provided IBM with a better predictability of earnings outside the U.S., which helps us understand the tax impacts and distributable reserve planning.”

Intel Corp.'s Four Key Observations on IFRS

1. *A uniform international approach to statutory reporting is a big change for the local regulatory authority choosing to adopt IFRS as its national standard, but also for preparers and how their internal operations work together. Applying a uniform approach to IFRS requires a big mindset change in working together around statutory reporting. There are opportunities to make it a much more efficient, self-reliant process, but it's much different than the past.*

2. *Principles-based IFRS standards versus U.S. GAAP leave a lot more room for interpretation and debate. That “room” for interpretation and debate results in more time required to get clarity and guidance, and it puts more pressure on preparers to apply their judgment in areas where, under U.S. GAAP, explicit guidance is more readily available.*

3. *Managing the external audit firms for one global interpretation and application of standards will take some focus. If the external audit firm isn't prepared to have a meaningful escalation path and a quick global approach to that interpretation and debate, you can have multiple interpretations for the same basic standard coming from different offices.*

4. *In terms of global readiness and speed of adoption to IFRS, external training is generally underdeveloped in the U.S. and Asia, and seems to be behind. This is consistent with some of the recent comments on the implications and observations made by the SEC.*

but it will also allow you to preserve consistency overall in your IFRS application. And, at some point, he adds, “if you choose or need to consolidate on a greater scale using IFRS, you'll have that consistent application worldwide.”

IBM's Anderson notes that the company plans to have in place systematic tools to help people convert

Is It Just a Matter of Time?

IBM's Nelson believes the SEC's proposed rule “will ultimately lead to an adoption of change in the U.S. regulatory requirements that will permit IFRS, as published by the IASB, to be accepted without reconciliation.” He adds, “We would support that. We think that's a step in the right direction towards worldwide consistency.”

The Future of IFRS (According to IASB)

2007 IFRS: 100 Countries + U.S. Convergence Program:

- IFRS required for all: 76
- IFRS required for some: 4
- IFRS permitted: 23

2011 IFRS: 150 Countries + U.S. Converged:

- No reconciliation required for foreign IFRS filers.
- U.S. companies may even be allowed to use IFRS.

Source: "IFRS Convergence Will Enhance Shareholder Value," presentation given at ACCA Annual Conference, Hong Kong, June 23, 2007 by Paul Pacter, Director, Deloitte IFRS Global Office.

So, if given the choice, would IBM switch? While he believes in the benefits of one worldwide set of accounting standards, he says it's too early to make a prediction. A change in GAAP, he warns, would have significant impacts outside of just pure accounting implementation: investor relations, analyst models, perceptions in the market and cost-benefit trade-offs, to mention a few.

Either way, Nelson advises companies that aren't already involved in considering IFRS to "start now, because you're behind."

Credit Suisse's Bless also believes the SEC will follow through, and at the right point in time, allow IFRS filers to file with the SEC without a reconciliation. On the thornier issue of whether U.S. domestic registrants will have that option as well, his personal opinion is that they should. Like his company, with many subsidiaries reporting under IFRS, he says other companies are also thinking from an overall operations-risk perspective that it would be easier to report everything under IFRS.

So, if given the choice, would Credit Suisse move to make IFRS its primary reporting mode? Bless says that would take much consideration and work, and he doesn't take it

lightly. There would be much due diligence and involvement throughout the global firm's corporate governance. The difficulty in managing the transition from one GAAP to another, he explains, is not so much the technical aspects but rather communicating awareness throughout the organization.

"You have to move the front office, the traders, the deal-makers — from playing the game according to one set of scoring rules to a new set, and there are fundamental differences between the rules with respect to documentation requirements."

Intel's Campbell believes that the "implications seem to be clear that the U.S.-based regulators, certainly the SEC, view IFRS as a longer-term, global harmonization and simplification vehicle." However, the "complexity and the degree of difficulty and the time to achieve that [convergence] is perhaps more significant [and] will be longer than many believe."

Think about it, he says: If the SEC mandates that its issuers move to IFRS, the SEC has a responsibility to ensure that expertise and knowledge are sufficient to professionally apply that standard. And, the implications of that, ranging from academia (to prepare the accounting profession)

to those associated with broad-based U.S. adoption, including the regulators, the auditors...; "this would be a significant undertaking."

Directionally, Campell believes, "we're headed more in that direction than not." He suggests that large multinational issuers utilize the adoption of IFRS in their various operating countries as an opportunity to engage and start the learning now.

If given the choice, would Intel switch? To Campbell, it's pretty clear: At this point in time, he says, "We would stick with U.S. GAAP." Strictly from a risk-aversion perspective, he adds, "I don't advise anybody to move too quickly or hastily in that direction. It may be a good thing longer-term, but the ground has to be well laid to prepare for it."

CHERYL DE MESA GRAZIANO, CPA (cgraziano@fei.org), is Vice President-Research and Operations for Financial Executives Research Foundation (FERF) and ELLEN M. HEFFES (ehffes@fei.org) is Executive Editor of Financial Executive.

TAKEAWAYS

>> Full or partial IFRS are currently being used in more than 100 countries.

>> The SEC has released a proposed rule to allow foreign filers to drop the reconciliation to U.S. GAAP requirement for their U.S. filings. The SEC has also issued a Concept Release for public comment on allowing U.S. companies the choice of filing in U.S. GAAP or IFRS.

>> U.S.-based multinationals that apply U.S. GAAP as their primary filing choice have begun filing in IFRS for statutory filings in the countries where it has been required since 2005.

>> Smart companies are advised to consider what's involved with a switch, considering resources, mindset, risk, training, auditors, investors, analysts, etc.

Congratulations to the
Colorado Chapter on
its 50th Anniversary!

