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**Accounting That Comes in Flavors**

**By** [**FLOYD NORRIS**](http://topics.nytimes.com/top/news/business/columns/floydnorris/?inline=nyt-per)

The world was supposed to be moving to a single set of high quality accounting standards, ones that would make financial statements comparable around the world.

That is not going to happen.

Instead, it appears increasingly likely that for a substantial period of time there will be two sets of accounting rules in the United States, with companies able to choose between American or global rules.

And while most countries, including the United States, will say they embrace international accounting standards, there may be numerous flavors of them, with investors perhaps having trouble figuring out just how comparable financial statements really are.

The [Securities and Exchange Commission](http://topics.nytimes.com/top/reference/timestopics/organizations/s/securities_and_exchange_commission/index.html?inline=nyt-org) is moving toward a formal decision, promised this year, on whether to adopt international financial reporting standards, known as I.F.R.S., as set by the International Accounting Standards Board. It already allows foreign companies whose securities trade in the United States to use those standards. It is expected to decide if, and when, to allow American companies to use them as well. It will also decide whether to require companies to use such standards.

Any decision will offend some people. Many international companies want to use the international standards everywhere, saying that would improve efficiency by no longer forcing them to use one set of rules in some countries and a different set at home.

But other American companies, particularly smaller ones, fear the expense involved in learning and applying a different set of rules. Some investors are highly suspicious, and fear that international standard setting will be more influenced by politics. Other investors think the political risk will be far higher if the United States does not sign on.

One member of the S.E.C., Kathleen L. Casey, said in [a speech last week](http://sec.gov/news/speech/2011/spch062411klc.htm) that the commission should move promptly to accept the international standards, saying investors would benefit from “accounting standards that provide investors with highly comparable, decision-useful information about businesses without regard to their domicile” and that American acceptance will lead to “continued improvements in the efficiency of the global capital markets.”

But in the same speech, she made clear that she did not really want one set of rules for everyone. She said any American company that did not like the international standards should be allowed to opt out, “at least initially, if not permanently.”

Mary L. Schapiro, the chairwoman of the S.E.C., has not made clear what she wants to do, and members of the S.E.C. staff have suggested a sort of middle ground between the two alternatives that have seemed most likely.

Rather than “endorsement,” in which the S.E.C. would simply accept the international rules, or “convergence,” in which American rules would move toward the international standards and eventually be so similar that it would not matter, Paul A. Beswick, the deputy chief accountant of the commission, [suggested “condorsement,”](http://sec.gov/news/speech/2010/spch120610pab.htm) a sort of combination of the two.

Under that outcome, the American standard setter, the [Financial Accounting Standards Board](http://topics.nytimes.com/top/reference/timestopics/organizations/f/financial_accounting_standards_board/index.html?inline=nyt-org), would continue to set United States GAAP — Generally Accepted Accounting Principles — and would consider each new international standard.

“The ideal would be to incorporate such standards as issued by the I.A.S.B. without modification,” he said. “However, criteria would need to be established for F.A.S.B.’s consideration of endorsing or incorporating standards — for example, whether incorporating a given standard is in the interests of U.S. investors or the U.S. capital markets.”

If that were to happen, then there would be an American flavor of international financial reporting standards, just as there is now a European flavor. The European Commission, under heavy pressure from French banks, agreed to allow banks to opt out of part of one rule set by the international accounting board.

For practical purposes, there once was a single set of accounting standards for most major international companies —United States GAAP. Companies that wanted to raise capital internationally needed a United States listing, and that was available only if they either used GAAP or reconciled their statements to GAAP. Not all companies did so, but many did.

The road away from GAAP is partly a story of technological change and of globalization of markets. It is now quite easy for American investors, whether institutions or individuals, to buy shares on overseas exchanges, and for companies to tap American capital markets without registering with the S.E.C. It is also a story of others chafing under American dominance and of an international board that has established a respectable record of standard setting.

The international accounting board was fundamentally reorganized more than a decade ago, thanks in no small part to the leadership of Arthur Levitt, who was then chairman of the S.E.C., and Lynn Turner, the commission’s chief accountant at the time. They insisted that members had to be chosen for technical expertise, said Stephen A. Zeff, an accounting professor at Rice University and author of a history of the international board.

In 2002, after the Enron and WorldCom scandals, Congress passed the Sarbanes-Oxley law, which provided financing for the American accounting standards board through fees levied on public companies. That was hailed as increasing the board’s independence by no longer forcing it to beg for contributions. But there is no similar financing mechanism for the international board.

The international board has not been immune to political pressures, a fact that alarms some investors. Most notably, the board suddenly agreed to let banks retroactively reclassify some assets to avoid having to take losses caused by plummeting market values during the financial crisis. That move came after members of the European Commission threatened to act against the board unless it caved.

Mr. Turner, the former S.E.C. official, is among the doubters. He concedes that the American accounting board has also succumbed to political pressures at times, but thinks the international situation is worse. And he argues that American markets have attracted investors in part because of better transparency provided by American accounting rules. “Why,” he asks, “would we want to give up that advantage?”

But he thinks the decision has effectively been made. When the S.E.C. agreed, in 2008 at the end of the term of Christopher Cox as chairman, to allow foreign companies to file reports using international rules, it probably set the country on a path that would be hard, if not impossible, for Ms. Schapiro to reverse, even if she wanted to do so. American multinationals say it is unfair that they cannot use the same rules that the S.E.C. allows overseas competitors to use, and that argument has substantial weight in Washington.

Thus it seems inevitable that those companies will be allowed to use international rules if they wish to do so. Equally, it seems to be politically perilous for the commission to force other American companies to do so, at least not anytime soon. So it seems all but certain that American companies will have a long — perhaps indefinitely long — time to switch, and that in the meantime, efforts will continue to align the two systems more closely.

When the S.E.C. acted to allow the use of the international standards without reconciling the numbers to American rules, it insisted that would apply only for companies that used the full international standards, as set by the international board, as opposed to the “carve out” ordered by Europe at the behest of French banks. But it may be that in the end there will also be an American set of international standards.

One possible area concerns inventory rules. Under American law, companies can get a tax break only if they use “LIFO,” or last-in, first-out, on their published financial statements. That is not allowed under international rules. Congress could be asked to change the tax law, but it is also possible that the S.E.C. would simply adopt I.F.R.S. with a provision allowing the use of LIFO accounting.

If the United States does move to I.F.R.S., the S.E.C. could play a role in enforcing consistent application of the rules, at least as they apply to major companies that list in the United States. If it stays out, advocates fear American influence would wane.

“The U.S. has a role to play on the world stage and to be a leader in the work of the I.A.S.B.,” Professor Zeff argues. “It cannot be a leader by embracing only convergence.”

The move toward international standards is not yet universal. Only a few countries, like Israel, have unequivocally agreed to accept whatever new rules the international board approves. China is not adopting international standards, merely seeking to change its rules so the results are similar. It is far from clear what India will do, and Japan seems to be wavering on its commitment to the international standards.

In Europe, where each new international standard must be approved by the European Commission before it takes effect, the new chairman of the international board, Hans Hoogervorst, was lobbying this week for approval of one standard, I.F.R.S. 9, which allows banks to avoid taking losses on loans and securities whose values have declined, so long as they plan to hold the loans for a long time.

That rule, he said, “gives us a little bit more leeway in terms of Greek government bonds,” adding that should appeal to the European Commission.

But it may not appeal as much to those who rely on financial statements, and would prefer to know when a bank’s loans go bad. As a sales pitch, “Adopt our rules and you won’t have any losses” does not sound like a promotion for a superior set of accounting standards.

http://www.nytimes.com/2011/07/08/business/accounting-standards-that-come-in-flavors-floyd-norris.html?pagewanted=all