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Public Company
PERSPECTIVES

TAUBER & BALSER

IFRS or U.S. GAAP?

The Securities and Exchange Commission (SEC) is exploring the possibility of allowing U.S. public companies to prepare financial statements using either International Financial Reporting Standards (IFRS) or U.S. GAAP standards.

To gauge the public's interest on this subject, the SEC issued in August 2007 a concept release that includes 35 questions to provoke feedback on the subject. The concept release addresses various issues, including the effects of not allowing U.S. issuers to use IFRS, the costs of converting to IFRS for companies, investors, auditors and others, and the costs of training and education.

What are the Benefits of Allowing the Use of International Standards?

Having a single set of high-quality globally accepted accounting standards is expected to greatly benefit both the global capital markets and investors. The use of a single set of standards should help investors better understand investment opportunities, as opposed to making investment decisions when differing sets of national accounting standards are used.

As such, the SEC has long supported the idea of reducing the disparity between the accounting and disclosure practices of the United States and other countries as a way to ease cross-border capital formation.

In 1997, the SEC noted that for companies wishing to raise capital in more than one country, preparing more than one set of financial statements to comply with differing jurisdictional accounting requirements increased costs and created inefficiencies.

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) announced in 2002 their formal commitment to the convergence of U.S. and international accounting standards and have undergone a robust and active process for converging IFRS and GAAP.

What will it cost companies to convert from GAAP to IFRS? Do the benefits of converting justify the costs?

Almost 100 countries now either require or allow the use of IFRS, and other countries are moving to do the same. The SEC expects to see this number of IFRS filings increase in the future – in fact, Canada has announced a move to IFRS, and there are approximately 500 foreign private issuers from Canada.

What are the Concerns with Allowing U.S. Public Companies to use IFRS Now?

The SEC's Aug. 7, 2007, concept release poses 35 questions to trigger feedback as the commission gathers input on the potential significance and effect of any such change to investors, companies and market participants as well as to the accounting profession in general. Some of the concerns raised include:

- How long will it take for most U.S. companies, their auditors and investors to understand and implement IFRS?

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New Audit Standard for Internal Control Approved by the SEC

As expected, the PCAOB's Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements*, has been approved by the Securities and Exchange Commission. AS5 replaces the PCAOB's previous internal control auditing standard, Auditing Standard No. 2.

AS5 is principles-based and simpler than AS2. The new standard is designed to achieve four objectives: 1) Focus internal control audits on matters of greatest risk; 2) Eliminate unnecessary procedures; 3) Make the audit scalable to fit any company; 4) Simplify the text of the standard.

The SEC's approval of AS5 activates compliance requirements for small businesses (market capitalization of less than $75 million). Companies are required to begin complying with the management assessment portion of 404, although full compliance would not begin until March 2009.

To support the successful implementation of AS5, the PCAOB has launched several initiatives including working closely with audit firms, early in their process, as they evaluate how the new standard will affect their firms' internal control audits. Other initiatives include continued outreach to public companies and smaller audit firms regarding the new standard.

Registered audit firms are now required to use the new standard for all audits of internal control no later than for fiscal years ending on or after November 15, 2007.

"We are pleased with the SEC's approval of AS No. 5, however, this does not mark the finish line for the PCAOB," said PCAOB Chairman Mark W. Olson.

"Successful implementation of AS No. 5 will be key. The new standard should drive important improvements in the audit of internal control, and the Board is committed to doing its part to aid in its successful implementation," said Chairman Olson.

GETTING TO KNOW...

Barbara Catherall

When Barbara Catherall, CPA, began her accounting career in the mid-70s, there were relatively few women in the profession. "I was fortunate to enter accounting at a time when there was such an array of opportunities for women accountants," says Barbara, who has worked with both international and large regional accounting firms during her career.

As Senior Manager serving the Forensic and Audit Departments at Tauber & Balser, P.C., Barbara draws from her vast experience, which includes litigation support, financial statement audits of publicly registered companies and privately held businesses, due diligence procedures, merger and acquisition consultation, preparation of franchise applications, internal audit outsourcing, and controllership training.

She has brought her accounting expertise to a variety of industries – professional services, retail, wholesale distribution, manufacturing, healthcare, real estate, not-for-profit and construction.

No matter what type of business she is working with, Barbara's approach begins with cultivating a deep understanding of her clients' businesses. "The better you understand their business concerns, the better you can serve the client," Barbara says. She encourages her clients to continuously challenge current business processes and think outside of the box.

Barbara received her undergraduate degree in accounting from the University of Maryland and her master's degree from the University of Baltimore. She is a member of the Georgia Society of CPAs and the AICPA. Travel is high on the list of life's pleasures for Barbara, who visited Spain earlier this year and, as she says, is "always planning the next trip."

Contact Barbara: 404.814.4961 or bcatherall@tbcpa.com.

PCAOB Proposes New Ethics and Independence Rule

The Public Company Accounting Oversight Board recently proposed new ethics and independence Rule 3526, *Communication with Audit Committees Concerning Independence*, to replace the Board's interim independence requirement, *Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees*, and two related interpretations.

The proposed rule would require a registered public accounting firm to communicate to a public company's audit committee about any relationships between the firm and the company that may potentially have bearing on the firm's independence. The communications would be required both before the firm accepts a new engagement in accordance with the standards of the PCAOB and annually for continuing engagements.

The PCAOB also proposed an amendment to Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*, which would exclude from the scope of the rule the portion of the audit period that precedes the beginning of the professional engagement period.

Public comments on both of these proposals will be heard until September 7, 2007.

The PCAOB adjusted the implementation schedule for Rule 3523 as it applies to tax services provided during the audit period to allow sufficient time for consideration of comments on the proposed amendment. Specifically, the Board will not apply Rule 3523 to tax services provided on or before April 30, 2008, when those services are provided during the audit period and are completed before the professional engagement period begins.

The text of the proposed new ethics and independence rule and proposed amendment to Rule 3523 are available at www.pcaobus.org.

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- Will we see a time where the SEC *requires* adherence to IFRS?
- What will it cost companies to convert from GAAP to IFRS? Do the benefits of converting justify the costs?
- When will U.S. companies be allowed to use IFRS?

One of the most significant concerns revolves around how the convergence work done by the IASB and FASB to date would be impacted. If the SEC were to begin accepting IFRS financial statements from U.S. companies, would market participants still have an incentive to support convergence work?

Another concern is that if the convergence work is interrupted or halted, the future work of the IASB and FASB may result in standards that are significantly different or that are not timely in their development.

What's Next?

The purpose of the SEC's concept release is to gather input on the questions surrounding this issue. Comments are due by Nov. 13, 2007, and can be submitted in various formats, including via the SEC Web site: www.sec.gov/rules/concept.shtml.

It is important for many voices to be heard before standard-setters determine the next best steps to take in the move toward embracing the use of international standards.

Tauber & Balser, P.C., would like to know your thoughts on the implications of allowing U.S. companies to file financial statements using International Financial Reporting Standards. Write to J. Marc Welch, CPA, with your comments: mwelch@tbcpa.com.

TAX TIP

FIN 48 requires financial statement issuers to analyze their entire inventory of tax positions in every jurisdiction for all open tax years. For example, a business will have to re-evaluate whether it has sufficient "nexus" to be subject to tax in every state and jurisdiction in which it has some business contact. In addition, the business will have to determine whether it has properly allocated income and expense between multiple jurisdictions.

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Clarifying the Shortcut Method

The Financial Accounting Standards Board has issued proposed Statement 133 Implementation Issue No. E23, "Issues Involving the Application of the Shortcut Method under Paragraph 68." This proposal provides guidance on certain practices involved in the application of one technique for determining hedge accounting, commonly referred to as the shortcut method. Designed to promote consistency in the practice of determining when an entity qualifies for the shortcut method, the proposal also provides investors and others with better information about how the shortcut method affects a company's financial statements.

The shortcut method prescribes a set of conditions that must be met in order for a reporting entity to assume that certain hedging relationships of interest rate risk would result in no ineffectiveness. Using the shortcut method vastly simplifies the necessary calculations involved in hedge accounting, as it assumes that the change in value of the swap is a "perfect proxy" for the change in value of the hedged item, thereby resulting in no income statement volatility (or "ineffectiveness").

"Currently, there is diversity in the way the shortcut method is applied by preparers of financial statements. That diversity has resulted in differences in financial statement information for similar transactions. This proposal seeks to reduce that diversity," said Louis Fanzini, FASB financial services industry fellow. "This proposal also is designed to reduce complexity in a way that makes it easier for preparers to understand the application of the shortcut method, resulting in clearer financial statements for the investor."

The FASB is seeking comments by September 21, 2007. Parties interested in providing input on the proposal should submit their comments by email to director@fasb.org, File Reference No. 1530-100.

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