Global accounting rules? Don't tread on me, U.S. says

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Canada's biggest companies walked away from this country's accounting rules after more than half a century this year, embracing International Financial Reporting Standards. The pain of the transition was eased by the knowledge that the world is moving to a global set of standards, used by all.

Well, take one guess as to who might not go along.

The United States Securities and Exchange Commission first suggested four years ago that public companies could eventually use the global standards, known as IFRS. Now, however, the agency's staff has delivered a new working paper describing the idea of "condorsement." It's supposed to be a combination of "convergence" and "endorsement," but it might be better named "rejectstinance," for obstinately rejecting a global standard.

The SEC plan would have key elements of IFRS brought into the U.S. accounting literature, which would remain supreme. The country's standards-setter, the Financial Accounting Standards Board, would remain as the entity empowered to decide which rules U.S. companies must follow.

Major Canadian companies thought they'd be moving away from the days when, due to the differences between U.S. and Canadian generally accepted accounting principles (GAAP), their financial statements weren't directly comparable with their southern peers' books. If the U.S. takes the "condorsement" approach, however, they'll be back in the same boat.

(To be fair, Peter Martin, the director of accounting standards at the Canadian Institute of Chartered Accountants, says that Canada decided to embrace the global standard regardless of whether the U.S. went along or not.)

There are some distinct differences between IFRS and both U.S. and the old Canadian GAAP. To name a few: IFRS bans an inventory-valuation method that lets companies take advantage of declining costs; IFRS allows profit-boosting reversals of certain writedowns; IFRS makes the cash-flow statement harder to evaluate because interest expense can appear anywhere on it.

U.S. multinationals are said to welcome the change from U.S. GAAP, since they have to use IFRS nearly everywhere else they operate. It is the smaller U.S. companies that are kicking and screaming for reasons of cost and, simply, nationalism.

"We didn't join the metric system when everybody else did," W. Anderson Bishop, the chief financial officer of small, publicly traded Hallador Energy Co. told The Wall Street Journal's Michael Rapoport. U.S. accounting rules are "the gold standard," Mr. Bishop said, "and why would we want to lower our standards just to make the rest of the world happy?"

Anthony Scilipoti, the executive vice-president of ***Veritas Investment Research Corp.***, sighs and smiles. "They're not going to adopt it until it's Americanized, because they want to be in charge – there's only one way, and that's the American way. Didn't you know that?"

Mr. Scilipoti allows the U.S., which has often been vigorous by Canadian standards in going after its scofflaws, doesn't want to lose that power to oversee its regulation. And indeed, some of the concern about IFRS comes not from regulated companies, which often try their best to soften or evade the accounting rules, but from regulatory hawks.

Jack T. Ciesielski, who runs The Analyst's Accounting Observer, has written to the SEC to express his concern about its approach in "condorsing" IFRS. He's concerned that industry-specific guidance in U.S. GAAP developed over many years is at risk of elimination. "Specialized accounting standards develop for a reason, usually because generalized accounting standards aren't sufficient."

Mr. Ciesielski argues that the European Union's approach to IFRS allows it to "carve out" pieces of the regulatory literature that it thinks are unsuitable, which it has done in one case related to accounting for financial hedges.

"How 'global' are such accounting standards anyway?" he asks. With the EU and U.S. constituting 52 per cent of global market capitalization, nearly half the world would be using a variation of IFRS. "The goal of one set of standards in the whole world is unrealistic, even in the best of circumstances."

When Canada embraced IFRS, it addressed the concerns of small, privately held domestic concerns by creating a "private-company GAAP," while making Canadian public companies adopt IFRS. No such solution seems imminent in the U.S., suggesting that IFRS may be abandoned in the name of not over-burdening small business.

But despite the SEC's reluctance to embrace IFRS for U.S. companies, it has allowed foreign issuers – including Canadian companies – to list on U.S. exchanges if they use the international standards. It was not a privilege extended to companies using Canadian GAAP.

"We haven't stepped backward by IFRS, whether the U.S. [adopts it] or not," ***Mr. Scilipoti*** said. Canadian companies' decision to embrace the international standards "opens the door to raise capital to list in the U.S. – you can list nearly anywhere in the world, whether the U.S. comes or not."

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