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Global Accounting Standards? Not So Fast: Under Growing Pressure From Europe To Jettison Certain Accounting Practices, Some Fear That Investors' Interests May Not Be Well Served  
The uproar over fair value accounting practices, which some critics have blamed for the depths of the global financial crisis, threatens to sink a long-sought move by countries around the world toward a single set of international financial reporting standards [IFRS]. . .

"If you think we have problems with transparency of balance sheets now, just wait for what's coming [under IFRS]," warns Kenneth Scott, a senior research fellow at the Hoover Institution and a professor at Stanford University's law school. Reclassification of financial assets "doesn't add anything to asset value. It just fixes the books. . ."

It's odd that something promoted as beneficial to investors should be called into question for potentially lowering the quality of reporting standards and in turn, preventing investors from analyzing what a company's assets are really worth. . .

The key difference between U.S. Generally Accepted Accounting Principles [GAAP] and IFRS is that U.S. standards are based on explicit rules while the international standards' reliance on principles gives companies more room to use their judgment in deciding how to recognize revenue and other key metrics. Adoption of IFRS would also probably trigger a big tax hike for U.S. companies, which would no longer be able to use the last-in-first-out [LIFO] inventory accounting method, which doesn't exist under the international standards. The LIFO method assumes that goods purchased most recently are sold first and that the remaining items have been purchased at earlier periods, yielding a lower gross profit during high-inflation periods than the first-in-first-out accounting method. . .

The most strident critics of migration to IFRS argue that the primary goal of the SEC and U.S. Treasury Dept. is attracting capital to U.S. markets, rather than ensuring that the highest quality accounting standards prevail. . .

The fact that IASB is funded by corporate contributions also compromises its independence, critics say. Until 2003, the FASB was funded under the same arrangement for 30 years. That changed with the passage of Sarbanes-Oxley, which required the board to be funded by mandatory contributions from the Public Company Accounting Oversight Board [PCAOB], which Congress created to provide better regulatory oversight of the accounting industry.

Another concern is whether the SEC would continue to have regulatory oversight if U.S. companies adopt IFRS. Says Miller: "The big issue is that sending it offshore diminishes our control, and in a time of crisis where accounting has played a part, I don't think it's especially wise to create a new system that diminishes U.S. control over accounting standards."