

IFRS In Context

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It's different here...

- Licensing is not deferred to a private regime
- Granting and revoking license is a government function subject to numerous statutory and constitutional mandates
- Courts routinely interpret applicable federal & state constitutions and statutes and rules
- States have a constitutional right to regulate differently
- Adoption by reference is statutorily and constitutionally limited

Why should State Boards/Independent Accountancy Regulators Care?

- GAAP adopted by reference throughout states' laws
- “Applicable standards” affects definition of practice and definition of “attest”
- Defines the scope of practice re what must be done in CPA firm and pursuant to standards and rules
- Determines what conduct is subject to state board discipline
- Affects what counts as qualified experience, qualified education, CPE and even peer review

UAA Rule 10-3 - Applicable standards

A licensee shall follow the standards, as applicable under the circumstances and at the time of the services, set forth in this section in providing professional services. In addition to the applicable standards set forth below, a licensee shall follow standards issued by other professional or governmental bodies including international standards setting bodies with which a licensee is required by law, regulation or the terms of engagement to comply.

Connecticut Rule Jan. 2009: Sec. 20-280-24. Experience

(1) Public Practice: Experience may be gained through employment as a staff accountant of a firm of certified public accountants where such experience is of a non-routine accounting nature, such that it requires independent thought and judgment on accounting matters. The work must involve application of appropriate technical and behavioral standards such as the standards contained in the Code of Professional Conduct, Generally Accepted Accounting Principles (GAAP), including **International Financial Reporting Standards** promulgated by the International Accounting Standards Board;

Colorado Rule (April 2009)

3 CCR 705-1

V. Accounting Principles. Generally accepted accounting principles determined by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), and the **International Financial Reporting Standards** (IFRS) as issued by the International Accounting Standards Board (IASB), and in effect as of January 1, 2009. This Rule does not include later amendments to or editions of the accounting standards setting forth the accounting principles.

New York Rule (2009)

8 NYCRR § 29.10

(ii) the licensee expresses an opinion on financial statements or financial data presented in conformity with generally accepted accounting principles. The State Board for Public Accountancy may consider those principles promulgated by a recognized national accountancy organization whose standards are generally accepted by other regulatory authorities in the United States, including but not limited to: the Financial Accounting Standards Board, the Government Accounting Standards Board, and the **International Accounting Standards** Board, to be generally accepted accounting principles.

Delaware Code (May 2009)

Captive Insurance Financial Regulation

Section 3.0 Annual Audit.

3.2.6 Notes to financial statements. These notes shall be those required under generally accepted accounting principles, statutory accounting principles or **international financial reporting standards**, as applicable...

Pennsylvania (2009)

Workers Comp Insurers

(3) ... The audit report shall meet the following criteria:

(i) It shall include financial statements which are presented in conformance with applicable generally accepted accounting principles as promulgated by the Financial Accounting Standards Board or the Government Accounting Standards Board or with **international accounting standards promulgated by the International Accounting Standards Board.**

South Carolina (2007) Licensing for General Contractors

- (A) Where an applicant is required to have a financial statement submitted by a certified public accountant or public accountant the board may accept a financial statement based on "Other Comprehensive Basis of Accounting" (OCBOA) or **on an accepted international accounting standard** that, if the certified public accountant or public accountant provides a statement indicating if the financial statement had been prepared according to "General Accepted Accounting Principles" (GAAP) the financial requirements would be met.

South Carolina (Aug. 2009)

Proposed Rule

- (2) “Attest” means providing the following financial statement services:
- (a) an audit or other engagement to be performed in accordance with the Statements on Auditing Standards (SAS);
 - (b) a review of a financial statement to be performed in accordance with the Statements on Standards for Accounting and Review Services (SSARS);
 - (c) an examination of prospective financial information to be performed in accordance with the Statements on Standards for Attestation Engagements (SSAE); or
 - (d) any engagement to be performed in accordance with Public Company Oversight Board (PCAOB) Auditing Standards.
- (e) In addition to the applicable standards set forth above, a licensee shall follow standards issued by other professional or governmental bodies including **international standard setting bodies with which a licensee is required by law regulation or the terms of engagement to comply.**

David Costello (July 2009) G20 Summit

- “...state boards are legislatively mandated, statutorily chartered, and work closely with the profession to protect the public interest.”
- “The ideal of global standard setting and acceptance must also include the critical element of total transparency and comprehensive vetting to all affected parties.”

Mary Schapiro (Jan. 2009)

Senate Confirmation Hearing

Described the Independence of the International Accounting Standards Board as her “greatest concern” about IFRS.

AICPA's *IFRS, An AICPA Background*, p. 5:

“Another concern is that worldwide, many countries that claim to be converging to international standards may never get to 100 percent compliance. Most reserve the right to carve out selectively or modify standards they do not consider in their national interest, an action that could lead to incomparability — the very issue that IFRS seek to address.”

Reality check: 47 countries have adopted pure IFRS (no carve outs) and require IFRS for all listed firms.

The total GDP of all 47 amounts to 4% of the World's total GDP.

The Country with the largest GDP would rank 15th among the states behind Washington.

The combined GDP for all 47 is less than the combined GDP of California and Georgia.

IFRS and Unlisted Companies

Pure IFRS is required for all unlisted company audits in 25 countries.

IFRS is not permitted for any unlisted company audits in 37 countries.

Bolt v. Merrimack Pharm., Inc. (9th Cir. Sep. 2007)

“To determine whether the balance sheet is prepared in accordance with GAAP, we do not take off our judicial black robes and reach for the accountant's green eyeshade. Rather, because “[GAAP] are far from being a canonical set of rules that will ensure identical accounting treatment of identical transactions[, and] tolerate a range of 'reasonable' treatments,” we generally defer to the professional judgment of the accountant who audited or prepared the financial statements, unless a GAAP authority demands a contrary accounting treatment. ...[and] International Accounting Standards fall on the lowest rung of the GAAP hierarchy in the United States ...”

***SEC v. Lauer* (SD FLA, Sep. 2008)**

“Investors were told in the private placement memoranda that the net worth for the Funds was to be determined in accordance with GAAP. Lauer, however, presented Offshore's financial statements through December 31, 2001, "in conformity with international accounting standards." Moreover, [Offshore's auditor] audited Offshore in accordance with international standards on auditing. ... [Offshore's auditor] did not, therefore, attest that Offshore's financial statements were presented fairly in accordance with GAAP.”

In the meantime...

- Multinational cooperation in licensing and standards adoption
- Disciplinary database
- Cooperation in enforcement
- Resource sharing
- Reducing misperceptions and misunderstanding
- Protecting the public



On the bright side

When IFRS is finally adopted in the U.S., you will be able to add 55 new names to the list of approving countries.