

# SEC To Look at Adopting International Accounting Standards

**FINANCE:** Accounting overhaul could mean big expenses for cos.

■ By DAN BEIGHLEY

Local companies may not be so eager to overhaul their accounting practices to meet an international standard.

Talk is surfacing over adopting a standard that would put American companies on the same page as companies in 100 countries.

The Securities and Exchange Commission is expected to assemble a committee as early as this summer to potentially put changes in motion to give U.S. companies the option to submit filings through an international standard rather than the generally accepted accounting principles already used.

The International Financial Reporting Standards, or IFRS, is hoped to ease communications for companies doing business around the world. It's the current standard for 27 European countries. Japan and China also are considering adopting the standard.

"There's still a lot to be learned," said Wayne Pinnell, managing partner of Irvine-based accounting firm Haskell & White LLP. "It's not clear if it would eventually become a mandate or an option."

## Not Easy

Making a change is no easy leap.

"IFRS goes beyond accounting," said Alfred Popken, a principal in Deloitte & Touche LLP's global IFRS and offerings services group. "IFRS will have a ripple effect throughout the organization including accounting systems, the internal control environment and training of personnel."

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Some companies may be eager to convert, especially those with international businesses that want better communications with foreign customers and investors.

But other companies have groaned at the potential costs of making a change, especially smaller companies with fewer international sales.

"Smaller companies using local banks don't feel any need to change," Pinnell said.

Changes would be hardest on companies that offer many different types of products and services, such as software companies, which would have to make accounting adjustments for each one, he said.

It's unclear how much it would cost companies to make the change, according to Pinnell.

Adopting the Sarbanes-Oxley Act, which was enacted by Congress in 2002 as a way for more precise accounting, cost companies some \$3 million.

Initial cost estimates from the SEC were much lower than what companies actually paid to implement Sarbanes-Oxley, he said.

Changing to IFRS likely will be hardest on smaller companies that would pay out a larger percentage of their revenue, he said.

Larger companies would likely be the first to make changes, with smaller ones taking more time, he said.

Educating employees could be one of the biggest expenses.

"There's a general concern over a lack of education and expertise," Pinnell said. "Most American universities don't teach the IFRS method."

Many companies would likely turn to accounting firms for help.

"Some companies underestimate the amount of time it takes to convert," said Danita Ostling, America's IFRS technical leader with Ernst & Young LLP.

Ostling was hesitant to say how much it might cost a company to convert, but said it would vary depending on the business.

## Systems Alike

So how different are the standards?

Ostling says the two systems are more alike than they are different. Seasoned accountants won't have trouble picking up the new method.

It would also be easier than it was for some European companies to change, she said.

The outcome of allowing better communication with the rest of the world would be the payoff, Ostling said.

"It's a global market, there should be global

communication," she said.

A change would be ideal for companies using multiple accounting methods, which would save them money by consolidating into one, Ostling said.

One standard will also be better for investors trying to compare different companies. This could allow companies to attract more foreign money, she said.

About 40% of the Fortune Global 500 companies already use IFRS, according to Deloitte & Touche.

The survey also found that about 40% of chief financial officers and other financial professionals said they thought a change would be too complicated.

About 30% said they'd consider changing to IFRS in the next three years, which was up from 20% six months ago.

Less than a third said they weren't sure what to think about making a change.

The survey also found almost two-thirds of the respondents said they weren't knowledgeable enough about IFRS to make a change.

London-based International Accounting Standards Board, an independent group that has its roots in the International Accounting Standards Committee that began in 1973, created the IFRS.

Last fall the SEC suggested the IFRS system could be closer to reality for U.S. companies when it allowed foreign companies to submit its filings to them in that format. ■



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