

**Testimony of Charles E. Landes
Vice President, Professional Standards and Services
American Institute of Certified Public Accountants (AICPA)**

**Before the
Committee on Banking, Housing, and Urban Affairs
of the U.S. Senate
Subcommittee on Securities, Insurance, and Investment
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Thank you, Chairman Reed, Ranking Member Allard, and Members of the Subcommittee. It's a pleasure to be here. My name is Charles Landes, and I am testifying today on behalf of the American Institute of Certified Public Accountants, or AICPA, as Vice-President—Professional Standards and Services.

The AICPA, with approximately 340,000 members, is the national professional organization for certified public accountants. Our mission is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients.

The global convergence of accounting and financial reporting standards presents opportunities, challenges, and issues for the profession, financial markets, and regulators.

International Convergence of Accounting Standards

I want to state as directly as possible that the AICPA supports the goal of a single set of high-quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports

throughout the world. The debate or question should no longer be whether we move to convergence of high quality accounting standards, but how soon we can accomplish convergence.

The AICPA was a charter member of the International Accounting Standards Committee (IASC), formed in 1973, the predecessor of the International Accounting Standards Board (IASB), and has used its best efforts to advance international convergence of accounting standards in the more than three decades since then.

The Financial Accounting Standards Board (FASB) and IASB have made tremendous strides in harmonizing accounting standards through working cooperatively. The United States Securities and Exchange Commission (SEC), under the direction of Chairman Christopher Cox and Chief Accountant Conrad Hewitt, has demonstrated U.S. leadership in expediting this harmonization.

Accounting is often referred to as the language of business. And because this global marketplace affects both large and small U.S. public companies, there is a need for a common business language—a common set of accounting standards.

In today's global economy, that one common accounting language will benefit all participants in the capital markets. It will benefit investors because it will facilitate the comparison of financial results of reporting entities domiciled in different countries. It will benefit public companies that have subsidiaries in multiple jurisdictions because it will allow them to use one accounting language company-wide. It will allow them to present their financial statements in the same language as their competitors. And it will benefit our members in public practice because it would allow them to simplify their training of auditors of public

companies by allowing them to focus on one core set of accounting standards, rather than multiple accounting standards.

But the AICPA also recognizes that, in today's global economy, a major concern is financial information that is reliable, relevant, and organized in a manner that is valuable to users. Therefore, international standards, whether they are in the area of accounting or auditing, must be of high quality to enhance the value of this information. The FASB, which sets U.S. financial reporting standards, and the SEC, because of their long experience as leaders in the accountancy profession, are in a unique position to influence the development of international standards in a way that will serve investor interests in the United States and around the world.

Is there still hard work to be done towards convergence? Yes. Will there be bumps in the road as we take this journey? Absolutely. But it is a journey that must be taken.

Securities and Exchange Commission's Proposing Release, Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP

As stated in the Center for Audit Quality¹ (CAQ) letter dated September 24, the AICPA supports the elimination of the U.S. GAAP reconciliation for foreign private issuers using International Financial Reporting Standards or IFRS.

¹ The Center for Audit Quality, an autonomous body affiliated with the AICPA, was created to serve investors, public company auditors, and the markets. The Center's mission is to foster confidence in the audit process and to aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty, and trust.

This is an important step in the process towards the acceptance of a single set of high-quality globally accepted accounting standards. A copy of the letter setting forth the views of the CAQ in more detail is attached as exhibit A.

Current SEC Concept Release, Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards.

The AICPA supports giving U.S. issuers an option to prepare financial statements in accordance with IFRS as published by the IASB for purposes of complying with the rules and regulations of the SEC.²

Giving U.S. issuers such an IFRS option will be yet another important step towards achieving the larger goal of a single set of high quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world.

Status of Convergence and Differences

Despite the ongoing convergence work of the FASB and the IASB, differences remain between U.S. generally accepted accounting principles (GAAP) and IFRS. Among those differences are:

- IFRS are less detailed than U.S. GAAP.
- IFRS contain relatively little industry-specific guidance, for example insurance and oil and gas.

² Our views, as expressed herein, relate to the use of International Financial Reporting Standards (IFRS) by issuers (public companies) only. The AICPA believes that a separate, dedicated effort would be required to consider the appropriateness of an IFRS option for U.S. private companies and not-for-profit organizations (both of which have in common with U.S. public companies that they apply U.S. generally accepted accounting principles as promulgated by the Financial Accounting Standards Board).

- IFRS still do not address the accounting for several significant issues that apply across industries.

But by the same token, I don't think anyone would assert that U.S. GAAP is perfect. Despite these differences, IFRS has proven to be a reputable set of standards for preparing financial information. IFRS, like FASB pronouncements, are issued through a robust process that is transparent to the public. That process reflects the collective input of accounting experts from around the world who contribute to the standards-development process. Many of these individuals are technicians and practitioners who have also served on national standards-setting bodies.

Due to the initial costs that converting from U.S. GAAP to IFRS would entail, we believe a relatively small number of U.S. issuers will choose such an option immediately. Should a large number of U.S. public companies choose the option immediately, system-wide readiness could be an issue. Accordingly, in a comment letter yet to be filed, the AICPA will recommend that the SEC solicit information on the number of issuers that will likely choose an IFRS option immediately or in the near term to help the SEC form its views on the timing of giving such an option.

The SEC's Role

The AICPA fully supports the SEC in its role of protecting U.S. investors. We encourage the SEC to continue to provide input during the IASB standards-setting process. The AICPA also encourages the SEC to work with other regulators around the world to agree on an appropriate framework for the acceptance of IFRS, and to work with those regulators to encourage robust enforcement of IFRS.

Should the SEC allow U.S. issuers to use IFRS, the AICPA believes the sharing of information among security regulators will be vital to the timely identification and resolution of financial reporting matters under IFRS.

The challenge will be balancing the needs of investors and the needs of the security regulators with one set of global accounting standards. In the end, any activity to remove organizational barriers and avoid geographical differences ultimately will aid in achieving one set of international accounting standards.

Holistic Undertaking

Although this hearing is to deal with the acceptance of IFRS financial statements in the SEC filings of Foreign Private Issuers and the granting of an IFRS option to U.S. public companies filing with the SEC, the AICPA believes that the SEC should view international convergence holistically. That is, if IFRS are to serve as a basis for U.S. issuers' financial reporting, there will also need to be changes in the auditing, regulatory, and legal environments.

Just as the SEC is exploring the use of international accounting standards for U.S. public companies, it, along with the Public Company Accounting Oversight Board (PCAOB), should also explore the convergence of PCAOB auditing standards and International Standards on Auditing or ISAs.

While the PCAOB will need to determine for itself the best way to set standards, the AICPA's Auditing Standards Board (ASB)³ has been successful in adopting an International Standards on Auditing (ISA)-based approach. ISA-based means, in addition to harmonizing our agenda with the International Auditing and Assurance Standards Board (IAASB), that the ASB starts with the ISA as the base standard

³ The AICPA's Auditing Standards Board promulgates generally accepted auditing standards that are used in the audits of non-issuers. PCAOB auditing standards are used in the audits of issuers.

and works from there. By moving to this approach, the AICPA has been able to increase its influence and participation with the IAASB. Although the PCAOB has been participating in IAASB matters, more can be done.

As a result, the AICPA encourages the SEC and PCAOB to pursue a strategy that will achieve convergence of auditing standards for audits of public companies.

Because IFRS currently are less detailed than U.S. GAAP, a decision by the SEC to permit an IFRS option should carry with it an expectation by regulators and investors that the use of reasoned professional judgment will sometimes yield different outcomes in similar circumstances.

In the absence of IFRS guidance, guidance should come from an appropriate IASB interpretive body. Security regulators, under the auspices of the International Organization of Securities Commissions (IOSCO), could participate in the IASB and International Financial Reporting Interpretations Committee (IFRIC).

Working from less prescriptive standards may result in more second-guessing by regulators and users and thereby result in unwarranted increased legal liability for preparers and auditors of financial statements. As a result, the SEC should work with Congress and other governmental agencies to explore this potential increased risk and work to mitigate it when preparers and auditors have applied reasoned professional judgment.

Finally, because IFRS would represent a change in the U.S. financial reporting system, the SEC should have in place a well-developed plan to solicit user feedback on how well the option is meeting financial statement users' information needs. The concept equates to the sound business practice of checking with customers after a new product has been introduced into the marketplace.

Standards-Setting Process

If the SEC gives U.S. issuers an IFRS option, does that mean convergence has been achieved? No. The convergence work of the FASB and IASB must continue and would be just as important if an IFRS option is given to U.S. issuers as it is today.

At the international level, continued progress towards high-quality international accounting standards requires an improved funding mechanism for the IASB that will allow the IASB to remain independent and objective. The International Accounting Standards Committee (IASC) Foundation⁴ trustees are currently developing a mechanism for public funding of the IASB's work. The AICPA encourages the SEC to engage the IASC Foundation trustees in that effort. Furthermore, continued progress towards high quality international accounting standards will best be achieved if the IASB takes full advantage of the resources available in the United States, and specifically at the FASB.

AICPA Responsibilities

The AICPA acknowledges that it also will need to fulfill a number of responsibilities to make convergence to a single set of global accounting standards for public companies a success. This includes continuing to educate our members about IFRS; to work with accounting educators, textbook authors, and educational institutions to prepare future professionals; and to begin incorporating IFRS into the Uniform CPA Examination. Rest assured that the AICPA will meet its responsibilities.

⁴ The IASC Foundation is an independent body that oversees the International Accounting Standards Board (IASB). The IASC Foundation's constitution is available at <http://www.iasb.org/About+Us/About+the+Foundation/Constitution.htm>.