

## Finding the right pace for standard setting

**Priority project timelines extended — quality cited**

### Highlights

- The FASB and IASB recently reset their target for completion of their priority projects — revenue, leasing, and financial instruments — from June to December 2011.
- The boards emphasized that they are focused on taking the time necessary to develop high quality standards.
- The boards have substantially stepped-up their outreach efforts and significant changes have been made to prior proposals.
- We agree that issuing high quality accounting standards is paramount. The boards should take whatever time is needed to accomplish this goal.

### We applaud the boards' focus on quality

- The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the boards) are re-deliberating their priority projects — revenue, leasing, and financial instruments — and addressing many complex issues. The final standards will have broad implications for many industries. Sufficient development time is needed to ensure that the final standards will be of high quality and will stand the test of time.
- We commend the boards for the recent increased outreach they have engaged in and their acknowledgment that more time is needed to develop these standards. Because of significant changes, we agree that more constituent input is needed on recent decisions and believe re-exposure of these proposed standards would be beneficial. Such input is essential for the boards to achieve their goal of issuing high quality standards.
- We continue to support attaining a single set of high quality global accounting standards. Reaching quality, converged solutions on joint projects will further that goal and best serve the long-term interests of investors and the capital markets.
- While we believe standard setters need to establish targeted timelines to create discipline in their processes, the issuance of high quality accounting standards is far more important than issuing standards by an arbitrary date.
- Our bottom line is that getting these standards right is just too important. We encourage the boards to continue taking the necessary time to get to the best answers on these standards — even if that means completion extends beyond 2011.

# Standard setters have been working at a breakneck pace

**The boards have made significant progress in developing these standards — but much work remains to be done.**

For some time, the boards have been working on about a dozen projects designed to improve both U.S. and international accounting standards. A number of the projects on the original convergence agenda have been completed. Nevertheless, the expected changes resulting from the remaining projects may dramatically affect companies' financial reporting.

## *Extending the timeline*

In late 2010 and early 2011, the boards narrowed their focus and concentrated their resources on completing certain priority convergence projects remaining on the agenda. These projects include revenue, leasing, and financial instruments.<sup>1</sup> At the time, the boards' target completion date for the projects was June 30, 2011.

Since then, the boards have significantly increased the frequency of their meetings. Over the past few months, the volume of issues being debated and speed of decision making has truly been remarkable as the boards worked toward the June target date.

Recently, the boards acknowledged the need to extend their target completion date for the priority convergence projects to the end of this year. In making this decision, the boards emphasized that developing high quality standards is their priority. They said that additional time was needed to complete development of the standards and check their conclusions.

## *Increased board outreach*

The boards also announced late last year that they would increase investor and preparer outreach. Since then, the boards have been true to their words. They have conducted public roundtables, issued additional requests for comment on certain aspects of the proposed standards, posted drafts on their websites for comment, and held informal meetings with investor groups and companies.

To us, it is also apparent that the boards are listening to the feedback. In response to constituent requests, the boards are seeking ways to reduce the complexity of the proposals. For example, they have scaled back certain aspects of their proposals where changes to existing guidance are not critical. This should reduce costs associated with implementing the new standards and help mitigate the risk of unintended consequences.

## *Moving in the right direction*

We commend the boards for their stepped-up outreach. Obtaining feedback is a critical part of the process necessary to develop high quality accounting standards. Just as important, we are pleased to see that the boards are making practical changes to reduce the complexity of the proposed standards while still providing quality, decision-useful information to investors.

We are also pleased that the boards have reconsidered their target completion date. In our view, more time is needed to finalize their decisions and issue these standards. This is because the boards are still re-deliberating key issues raised by constituents. Those re-deliberations will take time as they work together to try to achieve high quality, converged standards. Once re-deliberations are complete, the boards and their staff need to carefully and thoughtfully draft amendments to the original proposals and related existing standards. Additional valuable constituent input on the revised proposals and amendments is then needed. All this takes time. Given the amount of work that remains to be done, even meeting the boards' revised timetable will be challenging.

<sup>1</sup> The IASB also considers insurance a priority project.

# Take the time needed to achieve high quality standards

**Investors need to be confident that the financial reporting standards they rely upon are of high quality and will stand the test of time.**

**Preparers need to know that too — and that the standards are operational and cost effective.**

## *High quality is key*

We believe the key objective of standard setting is to develop high quality standards. To us, high quality accounting standards provide decision-useful information for investors, reflect the economics of transactions, and are sustainable. High quality standards contain clear principles, are understandable, and can be implemented at reasonable cost.

We continue to support the boards working toward attaining a single set of high quality global accounting standards. Some have suggested that issuing timely new standards is also important in today's ever-changing environment. We agree. However, in our view, the key goal of standard setting remains: to issue high quality accounting standards.

## *The wisdom in re-exposure*

Obtaining robust constituent feedback is a critical part of developing high quality standards. The boards and their staffs have been working hard and have accomplished a lot in a short period. Substantial changes have been made to the original proposals. These standards will have a fundamental impact on the financial reporting of many companies. This leads us to conclude that re-exposing the standards and allowing ample time for constituents to formally comment is the best way for the boards to obtain the right level of input.

While informal feedback is good, a formal process is more likely to result in standards that meet investors' informational, and preparers' operational, needs while avoiding unintended consequences. Providing a broad range of constituents with an opportunity to "trial test" the revised proposed standards and comment on the actual words and associated amendments will better inform the boards about whether the actual words will be interpreted in the manner intended. Obtaining that input now, before the final standards are issued, will reduce potential implementation issues. The boards should also consider providing ample time for preparers and investors to respond to re-exposure drafts issued in similar timeframes.

## *Working together*

Achieving convergence in these priority standards is part of the critical pathway toward a single set of global standards. Converged solutions best serve investors and the capital markets by creating a level playing field for reporting financial results. Companies around the world deserve that level playing field.

We commend the boards for their convergence efforts to date. Converged standards are emerging in revenue and leasing. The financial instruments proposal has been more of a struggle. We admit the path toward convergence is not easy. At times the boards have worked at a different pace, which has resulted in one board issuing a new standard or proposal before the other. In our view, this "leapfrogging" often impedes the achievement of converged, high quality standards. For example, the board that is still deliberating may be forced to choose between reaching a better solution or "settling" for convergence because the other board has already moved forward.

We encourage the boards to continue to work together to achieve high quality, converged standards and to issue their exposure drafts and final standards on these priority projects at similar times. We realize the process requires challenging discussions and carefully considered compromises that don't adversely affect quality. In our view, though, it would be unfortunate if the good progress to date resulted in final standards that differed because the boards could not agree or because one board issued a standard before the other had completed its work.

## *In conclusion*

So our views are clear — quality standards trump speed of issuance. Investors and preparers are asking for high quality, converged standards that result in comparable, decision-useful information. Having a target and a plan is good, but recognize that if it takes additional time beyond 2011 to ensure the appropriate level of input is obtained and the standards are of high quality, we say — continue taking the necessary time. It's the right thing to do.

# Questions and answers

Q: Is there any "magic" to the December target completion date?

A: Pressure to complete these projects surely exists. For example, the Group of Twenty Nations (G20) has said that convergence efforts should be completed by 2011, although they have also stressed the importance of reaching high quality solutions. Also, some constituents feel that international and U.S. convergence efforts should not go on indefinitely; that completion of the joint projects should occur quickly; and that should mark the end of convergence efforts. Still others believe that meeting the targeted timeline is important because completion of these projects could impact any SEC decision regarding the use of IFRS in the U.S. We understand and respect these views. Nevertheless, we stand by our view that the boards should take the time needed to achieve their primary objective of developing and issuing high quality accounting standards.

Q: Will a delay in issuing the standards affect the SEC's decision on incorporation of IFRS in the U.S.?

A: This is difficult to predict. While the SEC is expected in 2011 to make their decision whether, when or how to incorporate IFRS into the U.S. reporting system, we believe it is more important that they are comfortable with the quality of the IASB standard-setting process than completion of any one standard or group of standards. For example, the SEC Chairman and senior SEC officials have commented that developing high quality, sustainable standards should remain the key focus of standard setters and that delays should not affect the SEC's ability to make a determination in 2011. That said, some believe that completion of certain key standards currently under development should be an important consideration for the SEC as it makes its determination. The SEC staff has also focused their attention on understanding the consistency of application of IFRS across the globe and the transition challenges that may exist because of numerous existing U.S. regulations. We believe the outcome of the SEC's determination is still uncertain.

## Contact Information

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