3 Questions With Nate Vander Hamm

The Securities and Exchange Commission (SEC) has finally released its final staff report on International Financial Reporting Standards (IFRS) and whether the accounting standard should be adopted by publically traded companies in the U.S. However, much to the public's surprise, the report concludes without a final decision on whether IFRS should be adopted. Nate Vander Hamm, managing director with Grant Thornton, shares with us his insight into the final report, the concerns it raised and his thoughts on how publicly traded companies will respond to the uncertainties surrounding IFRS adoption.

What was the overarching message of the SEC's final report in terms of direction the U.S. should take with IFRS adoption?

An important point is that the SEC is being extremely diligent about whether to move forward with IFRS, and if so, how best to do it. One of the advantages of watching the rest of the world move to IFRS is that we have the benefit of learning from the unexpected problems that they have encountered. Many of those issues and concerns were noted in the SEC report.

The big thing that everyone was waiting to hear from the SEC was if the U.S. would move to IFRS and if so, how and when. The report was careful to not give any such guidance. However, there are many instances in the report where the SEC suggests that a slower adoption over time rather than the immediate or "Big Bang" adoption approach would help alleviate the challenges faced by a conversion. It's important to avoid drawing conclusions from this report, but it certainly did continue to advance the idea of a slower endorsement over time.

What are the SEC's primary concerns with IFRS and do you consider them to be valid concerns?

I believe that the primary concerns are focused on the issuers and users of financial statements. From an issuer's standpoint, one of the concerns is the cost of conversion. The costs will vary considerably for each company, although issuers who are required to change accounting systems will likely incur the greatest costs. Furthermore, issuers will have challenges with finding and retaining people with IFRS experience. They will also likely have to renegotiate contracts that reference U.S. GAAP metrics. Tax conformity rules will create other challenges for many issuers, along with other unintended consequences.

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The concerns for users are focused on their ability to understand and use the financial information they receive. Do the investors, lenders, regulatory agencies and other users have the appropriate resources to understand a new basis of reporting? If not, they will need to retrain their existing resources or obtain new ones.

I certainly believe that the SEC's concerns in this area are valid. Converting to a new basis of accounting that doesn't meet the needs of financial statements users and is costly and challenging for financial statement preparers is a lose/lose proposition. However, I think it's important to remember that these concerns have already been addressed by other companies in the U.S. As our economy becomes more global, we continue to see more U.S. companies adopt IFRS in order to be listed on a foreign exchange, due to a foreign equity investor, or to prevent duplication of accounting by their foreign subsidiaries. These companies have successfully managed the conversion process, although they didn't begin to address these and other issues until after a decision requiring them to adopt IFRS was made. To be clear though, I'm not suggesting that individual companies adopting IFRS would have the same impact as all U.S. public companies converting. Clearly, the number of companies and the scale of the effort would be significantly greater.

How are most U.S. companies responding to the uncertainty of IFRS adoption in the U.S. and will the SEC staff's final report change companies approach?

Most companies don't appear to be taking any significant steps towards preparing for IFRS. The uncertainty surrounding IFRS has led to inaction. From my discussions with U.S. public companies, it appears that most of them won't begin evaluating IFRS until there is a timeline from the SEC. Therefore, I don't anticipate any of the concerns raised by the report being seriously addressed unless there is a mandate from the SEC, which doesn't appear to be coming very soon. Since the final report doesn't answer the key questions of if, when and how, I don't anticipate that companies will begin to actively address the possible issues.

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