



*Note: In January 2009, the editors of **Financier Worldwide** interviewed Scott Ehrlich of Mind the GAAP regarding the convergence of U.S. GAAP and IFRS and the implications of the global credit crisis. The following represents Scott's transcribed responses to the questions posed. Each response was limited to around 100 words per question.*

QUESTIONS

1. What are the advantages of [U.S.] GAAP and IFRS? Which do you believe would make the best global standard, if either?

MTG Response: U.S. GAAP literally contains thousands of pronouncements. If you have an accounting question, there is probably some U.S. GAAP standard that can guide you to the right answer. But having so many standards makes applying U.S. GAAP difficult – you almost have to be a “black belt librarian” to find the right literature for some transactions. Under IFRS, there are significantly fewer standards, many of which are principles-based. This means that IFRS is easier to apply, provided you are comfortable making judgments. Also – and this is not to be underestimated – IFRS is written in plain English, unlike much of U.S. GAAP.

2. Which areas of GAAP and IFRS will be most difficult to reconcile?

MTG Response: U.S. GAAP and IFRS have different models in testing long-lived assets – such as property, intangibles, and goodwill – for impairment. The Boards previously tried to reconcile their respective models, but to no avail. I suspect this will be one of the last areas the Boards try to converge. Both Boards seem to think their own impairment model is better than the other's, and neither Board has given any indication that it will budge from its respective position.

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3. Did fair-value accounting actively contribute to the financial crisis?

MTG Response: In no way did fair value accounting contribute to the financial crisis. If anything, fair value accounting actually provided empirical data to reinforce what some investors and creditors had suspected – that the supposedly great investments held by some companies actually were not worth very much. Bad assets are still bad assets, irrespective of whether they are accounted for at fair value or some other method. But one huge benefit of fair value accounting is that it allows for greater visibility into management’s stewardship of a company, meaning investors can make better decisions whether to buy, hold, or sell the stock.

4. What is the future of mark-to-market accounting? Are there any viable alternatives?

MTG Response: Mark-to-market accounting is here to stay. If anything, I think we’re more likely to see its expansion rather than its contraction. If all financial assets were marked-to-market, companies would not need to perform “other than temporary impairment” tests under U.S. GAAP or look for “loss events” under IFRS – areas that are giving preparers fits at the moment. I do acknowledge that if we increase the use of fair value accounting, the income statement would have to clearly separate the “mark-to-market” adjustments from the realized gains and losses, but standard setters are already working on this issue [in the Financial Statement Presentation project].

The conclusions from the SEC’s recent study on fair value accounting were quite interesting. The SEC unequivocally supported fair value accounting, and found no evidence that it contributed to the collapse of the markets or any individual company. It could have been easy for the Commissioners to get caught up in “politics as usual”, blaming fair value accounting for the collapse of the U.S. economy, especially with a new administration coming into office. But to their credit, the SEC delivered a thoughtful and well researched analysis that eliminated any question that fair value accounting was a cause of the economic crisis.

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5. Will a single accounting standard definitely help comparability?

MTG Response: Actually, there would be one significant drawback if we move towards global accounting standards based on IFRS – comparability would be compromised. While IFRS contains robust accounting principles, there is relatively little guidance on how to apply those principles in practice, unlike U.S. GAAP. It is therefore inevitable that companies will account for similar transactions in different ways – not intentionally, but simply because IFRS allows for more judgment than U.S. GAAP. IFRS does require detailed disclosure about significant accounting policies and judgments, but I suspect only the real hardcore analysts would comb the footnotes looking for policy disparities between comparable companies.

6. In your opinion, will there ever be a true global standard? Why?

MTG Response: There will be a global set of accounting standards, because market forces are demanding it. Simply, all of the parties to the financial reporting process – preparers, users, and regulators – tend to favour the concept of a single global set of accounting standards. I do worry, however, that certain countries or industries may try to add their own "flavour" to the accounting requirements, which obviously counteracts the benefits of having global standards. My prediction, though, is that the major accounting firms will assume the role of de facto "GAAP police", ensuring fairly consistent IFRS interpretations and policies across industries and countries.