Dear Mrs. Harman Acting Secretary,

During the last couple of years there have been discussions of adopting global accounting standards. Currently Generally Accepted Accounting Principles, (GAAP) is used in the United States. GAAP has often been defined as rules-based accounting, which has bright line tests, allows for exceptions, and is very detailed oriented. The most common accounting approach outside of the U.S. is International Financial Reporting Standards, (IFRS). This approach is often described as principles-based accounting, which gives general descriptions of the objectives and allows for more judgment in the interpretation of the objectives. The U.S. is currently contemplating the decision of whether or not to adopt the IFRS accounting policies. The adoption of these standards would allow the U.S. to better compete in the global economy. A single worldwide standard for financial reporting would be more efficient, transparent and cost-effective[1]. Uniform accounting standards are essential in a global economy and the U.S. should move toward reaching them, but the adoption of IFRS is not the correct road to take in achieving this goal.

The Securities and Exchange Commission, SEC, has stated that they believe that the current method used in the United States, GAAP, "constitutes the most complete and well developed set of accounting standards in the world"[2]. This rules-based approached is very detailed which leaves less room for the preparer's judgment and their own interpretation of the rules. In support of GAAP and bright-line tests is that the result of these tests leads to greater comparability among companies because they are all adhering to the same standards[3].With less individual judgments involved every company will be able to account for an item the same, giving investors the assurance of comparability through out industries.  This approach has been used for decades, and this is what has been taught to all future and current accountants and auditors in the United States. Of course no system is without its flaws and there have been some that emerged from GAAP as of late, but that is nothing that cannot be fixed with better understanding and implementation from the reporting company.

There are additional rules that companies need to adhere to in order to be in compliance with GAAP. The information in financial statements needs to be relevant and reliable. To be relevant the organization needs to describe a clear picture about the current economic situation. The information needs to be reliable so that an investor can make decisions based on the financial statements. It also needs to be consistently prepared and comparable. This allows organizations to be compared to themselves and to their competitors. All of these principles allow for protection of the investor which is the main concern of the SEC.

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[1] What the Switch from GAAP to IFRS Means for Credit Pros. IOMA's Report on Managing Credit, Receivable & Collections. New York: December 2008. Vol. 08, Iss. 12, p. 1.
[2] United States, Securities and Exchange Commission, "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System". Retrieved January 29, 2009. p. 8. <http://www.sec.gov/news/studies/principlesbasedstand.htm>.
[3] "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System", 13.

There are advantages to adopting IFRS, which presumably include less complexity. Since IFRS is principles based it only has 2,500 pages. This is because only general guidelines are given where as the rules-based approach, GAAP, has 25,000 pages [4]. It is less for accountants and auditors to learn, and eliminates exceptions and bright-line tests which have been manipulated in some instances to obtain a more desirable result from the transaction. Another benefit is that numerous trading partners of the U.S. have already adopted IFRS, and it would be beneficial to everyone if all of the large economies were on the same page when it comes to financial reporting.

On the other hand IFRS allows for more interpretation of the rules and therefore more judgment calls by the preparers and auditors. This is a disadvantage because different people may interpret the guidelines differently. Two companies could have locked into the same transaction but recorded it differently. This makes it harder for investor and analysts to compare companies. The SEC has stated that principles-based standards can provide inadequate guidance to make the standards reliably operational[5].Judgment can never be eliminated but adding more of it will only bring up additional issues. There is also a concern of being second guessed with a principles-based approach. It will become increasingly difficult for auditors to verify management's calculations without the use of bright-line tests. The auditor's interpretation of the rule may differ from managements therefore coming up with two different numbers, and no way to determine which one is correct. No standard setter can identify the countless business situations that can and will occur. As a result it is virtually impossible to construct sufficient refinements for each standard so it is optimal for each and every situation encountered. In order to do this, the standards would have to become more rigid and detailed which would defeat the purpose of principles-based accounting. Detailed accounting standards remove any company-specific knowledge from the ones who are making accounting judgments[6].

The road to employ this roadmap would be a long and expensive one to carry out. There would be a need for companies to update their software and to train their employees on the new standard. Auditors would need to study and learn the new accounting principles. Investors would also have to learn the new principles as well. Business schools would need to revise their curriculum in order to teach students the new accounting method. In fact, the SEC is approximating that it will cost $32 million for each of the 110 companies that may use IFRS before 2014. These enormous costs will hit the smaller companies significantly harder than the larger ones that have the ability to better absorb these costs[7]. If IFRS is implemented then smaller companies might need some form of government assistance in order to shift to the new method.

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[4] Iwata, E. Will going global extend to accounting?: Switching to international rules has its pros and cons. USA Today. McLean, VA.: January 6, 2009, 4.

[5] "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System", 6.

[6] "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System", 15.

[7] Iwata, 3.

A study of European companies that moved to IFRS found that the financial statements of these companies to be widely varying in the quality of the reports. The statements were said to have been boilerplate and uninformative disclosure of financial information. There has also been research that shows that IFRS boosts income, investment returns and other financial measures. On a report of 73 European companies the average net income rose by 23% in 2005 and 2006[8]. There will be a lack of comparability between GAAP and IFRS with the U.S. companies because a reconciliation report of 129 companies IFRS rose profit figures by as much as 8 percent for some companies[9]. As a result, previous years could not be compared to the current year or prospectively if there is a switch to IFRS. Investors and analysts would be unable to make informed decisions with the change in accounting policies used.

Additional concerns with principles-based standards include a loss of comparability across companies because of management and auditor discretion in the application of the principles. There is also a difficulty in seeking remedies against "bad actors" either through enforcement or litigation. There is a concern by both the preparers and auditors that the regulatory agencies might not be accepting of "good faith" judgments. Lastly, under the IFRS standards Last In First Out, LIFO, may not be permitted as a means to evaluate inventory[10].

The enforcement body of regulations becomes a prominent issue under IFRS. The International Accounting Standards Board (IASB) creates the IFRS for issuers only. The problem with this is that "it is not likely that the states would accept the IASB, a non-U.S. organization, as the one to set standards for U.S. non-issuers"[11]. It is a concern that the U.S. companies that do not follow the IFRS will be willing to accept the standards, for which they are to follow from a non-U.S. organization. Included in this is that to be an effective standard setting body, according to U.S. approval, it must be independent of any special interest in membership, funding, governance and mission. The IASB fails in this respect because it is dependent upon contributions from public accounting firms[12]. In this regard the U.S. would not be willing to approve of the IASB as an appropriate regulator.

One concern that was mentioned above was the possible elimination of LIFO. Ironically, the shift in inventory methods would put companies in violation of the conformity requirement. If LIFO is abolished then numerous U.S. companies could face large income tax liabilities from accelerated income recognition. This can inflate income so much that Exxon Mobil Corp. would have reported a $40.8 million higher income if it had used FIFO instead[13]. Companies that switch to a different inventory method could have negative consequences that result. Companies use LIFO primarily to lower their income tax liability and to

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[8] Iwata, .3.

[9] What the Switch From GAAP to IFRS Means for Credit Pros, 1

[10] "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System", 15.

[11] NASBA Urges SEC to Withdraw Roadmap. PR Newswire. New York: February 19, 2009, 1.

[12] NASBA Urges SEC to Withdraw Roadmap, 1.

[13] Bloom, R., Cenker, W. The Death of LIFO?. Journal of Accountancy. New York: January 2009. Vol. 207, Iss. 1, p. 1.

postpone paying taxes. Net income is not the only item on a financial statement that is affected by this switch. Inventory will of course rise along with retained earnings, income tax payable and deferred tax liability[14]. Companies are not going to be willing to switch to a different method when these negative consequences are present.

The need for global accounting standards is evident in today's economy. There are advantages to using GAAP like bright line tests, detailed interpretations and the use of LIFO. IFRS also has its advantages of being less complex and allowing for more use of company specific knowledge. To substitute GAAP for IFRS is a mistake. IFRS also leaves more room for judgment from management which will leave them being second guessed by both the auditors and the regulatory agencies. The elimination of LIFO will have an astounding effect on financial statements of the companies that use LIFO. Comparability will be lost and consequently that company will be out of compliance with the consistency standard. A principles-based accounting policy is not the correct path to take in creating a global accounting standard.

I would like to take this opportunity to thank you for allowing me to comment on this matter that is important to my future as a graduate student of accounting.

Sincerely,

Karin Dzura

[14] Bloom, 2.

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