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## An SEC Timetable for Global Accounting Rules

A road map has been tentatively set up by a unanimous commission allowing U.S. companies to adopt international accounting standards

by [Keith Epstein](#)

In an important move that some companies regard as vital to staying globally competitive—and critics view is a troubling sign that Washington wants to outsource its authority to tax regulators abroad—the Securities & Exchange Commission is proposing a specific timetable for allowing companies to adopt international accounting standards.

Under a "road map" tentatively adopted by a unanimous commission on Aug. 27, the standards would be required in 2014. The largest 20 companies in their industries by market capitalization would be allowed to make the change even sooner. In two months, following a period of public comment, the SEC will vote again.

SEC Chairman Christopher Cox [argues that the changes are needed](#) to cut compliance costs and help companies compete globally.

But because the changes would allow companies more flexibility in how they report assets and income—and thus might be able to alter the way accountants present a picture of their profits—some critics argue the changes are not in the best interests of investors.

### TIME TO PREPARE

The American Institute of Certified Public Accountants applauded the development as a sign of an eventual move from U.S. accounting rules. "The capital markets will ultimately insist on" international financial reporting standards, says Barry Malancon, president of the accountants' group. A majority of accountants surveyed by the group said they'd need three to five years to prepare for the changes.

Jack Reed (D-R.I.), who chairs a securities and investments subcommittee of the Senate Banking Committee, has criticized U.S. regulators for not being tough enough and has repeatedly opposed the notion of adopting international accounting standards.

There was a time when a hodgepodge of international accounting requirements created a financial-reporting tower of Babel. But in recent years, China, Canada, and dozens of other countries began merging their rules with standards adopted in 2005 by thousands of European companies.

To U.S. supporters, "harmonization" of such standards is another reality of globalization. Federal Reserve Chairman Ben Bernanke and U.S. Treasury Secretary Henry Paulson are among those who have supported the need for merging such standards—not only to make U.S. corporations more competitive but also to draw more companies from overseas and spur foreign investment.

"I'm supportive of it," Paulson said of the SEC's plans during July testimony before the House Financial Services Committee. "There are different accounting regimes with different standards and different requirements. That doesn't make them worse than ours. We've had plenty of issues with our accounting regime."

### OUTSOURCING OF POLICING?

Bernanke noted that converging standards would create "more incentive for foreign companies to operate in the U.S." It would not, he added, "create any major problems with our accounting system."

But committee members such as Michael Capuano (D-Mass.), have argued that the convergence of standards amounts to outsourcing of policing by U.S. regulators to nations whose securities police may not be so vigilant.

The SEC has already taken steps towards internationalization. In November the agency said it would no longer compel companies in other countries trading in U.S. markets to report results based on U.S. accounting standards. And on Aug. 25 the SEC took the first steps toward allowing U.S. and Australian stock exchanges and broker-dealers to operate in both jurisdictions without having to be separately regulated in both nations.

Now, under the new proposal, some of the happiest beneficiaries may be large U.S. corporations with subsidiaries in other countries. The reason: They would no longer have to keep one set of books for the U.S., another set for regulators in the other country.

For investors, meanwhile, a global convergence of standards could prove confusing.

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