

# The Leisenring Ledger

## Gearing Up for the FASB-IASB Joint Meeting

As the FASB, the International Accounting Standards Board (IASB), the Canadian Accounting Standards Board and other organizations prepare for a series of international accounting standard-setting meetings that will take place in Toronto during the week of October 19, *The FASB Report* wanted to bring readers close to one of the key participants in international accounting.

We recently had an opportunity to talk candidly with IASB member James J. Leisenring, who was eager to discuss convergence of accounting standards and the progress that is being made, why neutrality matters—regardless of geography—and how political influence plays a role across borders. During that conversation, Jim also discussed the progress being made by the FASB and the IASB and some of the challenges that could impede convergence efforts in the global marketplace.

**Q First, please describe your view of the liaison role and convergence between the FASB and IASB.**

Of all seven liaison positions currently between domestic standard setters and IASB, there is recognition that the one with FASB involves the most intensity, since FASB is by far the most active standard setter in the world. While convergence certainly isn't just between the FASB and IASB, the two Boards are the more obvious part of the process because of the short-term convergence project of both Boards.

**Q What is the status of the short-term FASB-IASB convergence project?**

I believe the short-term convergence project has gone better, to date, than we had a right to expect. Both Boards have demonstrated that they are very serious about the convergence effort. In my opinion, however, what is really meant by convergence is much better exemplified by the joint projects on revenue recognition and phase two of the business combinations project. The real test of convergence does not involve some of the narrow issues of the short-term project where you just decide which standard setter has the superior answer, but on whether the FASB and IASB can work effectively together on something new or very fundamental and arrive at a single answer that we can share internationally and domestically.

**Q Can you talk about the upcoming joint meeting of the FASB and IASB Boards in Toronto on October 23?**

I think it's fortuitous that we happened to schedule the October meeting in North America. The meeting in Toronto allows the two Boards to meet efficiently together with the Canadian Accounting Standards Board. On the agenda will be specific items that relate to joint projects and others where we have had differences of opinion that need to be resolved to continue to make progress toward a converged standard.

**Q Will the agenda focus be entirely on joint projects?**

No. We only have had a couple of circumstances, so far, where we have reached different conclusions and have been quite successful in resolving differences in the joint projects. We've been less successful concerning issues that have not been a part of a joint project. For example, we've had disagreements—tentatively at least—on some fundamental conclusions with respect to stock compensation as well as performance reporting where the latter is not a joint project with FASB, but with the Accounting Standards Board in the United Kingdom. I believe we are going to find, even over the long-run, that the joint projects will be easier to administer and achieve our objective. When projects are not joint but are on both agendas, there are going to be more problems trying to reach agreement.

**Q What about the stock options project on which the FASB and IASB are currently working? What have you observed?**

They are running in tandem, but on different timetables in that the IASB is redeliberating an Exposure Draft and the FASB is deliberating an Exposure Draft. My concern is that we have to be careful to try not to issue a final Statement at the IASB, believing that the FASB and IASB are in complete agreement, only to have the FASB later change its mind from the Exposure Draft, as a result of comments that it receives. This will be an ongoing challenge for all projects that are not on the same timetable.

**Q** *Is there any better way to address that challenge, in your opinion?*

The only solution is to contemporaneously issue Exposure Drafts or, at least, final documents. The IASB, however, has no flexibility about when it issues documents because right now, we have to get certain projects completed by March 2004. They can't be effective for 2005 when Europe adopts IFRS if we don't, so the IASB is trying to get as many standards as possible "out the door" by March 2004. After March 2004, the IASB won't issue anything else that's required to be put in place in 2005, and we will have more flexibility on issuance dates.

**Q** *Since assuming your liaison role, what, in your opinion, has been the greatest challenge for the IASB?*

I think it's the resistance to having an independent standard setter in Europe. Europeans don't seem to want one or appreciate what is meant by independent standard setting. They tend to see it as a process of negotiation rather than contemplation and analysis, resulting in a conclusion about standards based on a conceptual framework.

**Q** *Back in September 1999, you wrote a piece about the importance of neutrality in accounting standards. How has what you wrote four years ago rung true today and does that position apply, for example, to derivatives and other issues?*

Absolutely. It's still as true today as it was then and even more timely now given the activities of some who are trying to resist adoption of international standards. We must try to convince people that there is no public interest in purposely distorting financial information to achieve some objective other than making available decision-useful information to the marketplace.

**Q** *Is there a particular reason why you think there is now more enticement to distort financial reporting, or "bend the rules," to make a company look good? Are there different motivations today than before?*

I don't know if the motivations are any different. It is just more obvious that you can't do that—that is, distort reporting and make the information useful for investment decisions. In a sense, what people want to do is say, "I know I have certain written derivative contracts, but I do not want to account for them, because if I have to account for them it will have consequences."

It's the same as saying I shouldn't have to account for my liabilities because I have too many of them. Certainly, accounting has consequences, and if it didn't, the information would not be useful in allocating and pricing capital.

**Q** *You lived through the stock option accounting controversy in the U.S. in the 1990s. What is the issue like for the IASB today? Is it different or the same?*

It's different in the sense that there is far more support internationally and, in particular, from the business community to properly account for compensation schemes. I think that is so, in part, because there is less use of stock options in other parts of the world than here in the United States. What is consistent is that the same U.S. forces that have always tried to stop accounting for stock options are doing their best to organize preparers and politicians in Europe for the same kind of opposition as has been the case in the United States. But, by and large, they're not finding much success.

**Q** *In your current IASB Board member role, is it discouraging that you have the same challenges as you experienced in the past at the FASB?*

I am somewhat discouraged because I'm dealing with the same issues on a different basis. People don't understand that the only public interest issue is credible financial information. There is no public interest argument that can be made that says you should purposely distort accounting to benefit a particular group. All that does is raise the cost of capital for all by creating uncertainty about everybody's financial reporting. The costs are enormous for the benefit of a few.

**Q** *Before getting into any comments you might want to make regarding the FASB and IASB relationship, what are the prospects for convergence?*

If the IASB is allowed to be an independent standard setter, I think convergence is inevitable and will be done on a very high level. We will have a set of international standards that will promote lower costs of capital worldwide and be very effective. However, I'm not confident that the IASB will be left alone to be a standard setter. That depends upon the behavior of the politicians, particularly in Europe, and if, in fact, they interfere with the process of providing international accounting standards.

**Q** *What will be the consequences of the European Commission not accepting international standards?*

If Europe is not really serious about this, it's going to be very difficult to converge. The U.S. and most of the world is serious about having useful, decision-making information in a united worldwide marketplace. If Europe is not ready, I would say the chances of convergence would be very slim and probably, ultimately, the FASB will become the international accounting standards setter by default.

**Q** *Would your IASB liaison colleagues agree with that statement?*

I don't know whether they would or not. I know we all would hope that doesn't happen. I believe all Board members at the FASB and IASB share a concern about the consequences of political interferences in the process.

**Q** *What has been the most contentious issue since you started as a member of the IASB in 2001?*

IAS 39—accounting for financial instruments—has been the most contentious. The opposition is led particularly by the banks and insurance companies, primarily over the accounting for derivatives.

**Q** *What are the perils of not reporting derivatives?*

One of the perils—and one of the reasons for so much opposition to accounting for derivatives—is that not reporting derivatives may be a way of covering up significant losses. Derivatives are very powerful instruments that can make significant accomplishments in terms of real risk mitigation management but can also dramatically increase risks. I suspect many opponents to accounting for derivatives do not want to account for the risks they have taken on.

**Q** *The IASB is working very hard to produce the best possible set of global accounting standards. What's the benefit to the capital markets?*

There are several obvious benefits, but one of them, of course, is the facilitation of cross-border financing. Another is the more effective and efficient capital allocation that results from providing decision-making information that is perceived to be more reliable and trustworthy. Yet another benefit is reducing costs of preparers by facilitating a single set of financial statements rather than multiple presentations. Perhaps the biggest benefit is that when users of financial information have the ability to understand and compare companies across borders, they must, in the long run, allocate capital more effectively and efficiently.

**Q** *What are the other challenges for the FASB and IASB working together?*

We know we're more apt to be successful if we do an even better job of converging our agendas in the future. A common agenda simultaneously dealing with issues would obviously make convergences easier and both the international standard and domestic setting process more efficient. We must also get both the IASB's and FASB's member and staff resources integrated to avoid duplication of effort. We have made very good strides in that area and the staffs of both Boards should be commended.

**Q** *What are your thoughts about "principles-based standards" and how will they impact convergence?*

In the first place, I'm not sure we understand what that means. I accept that the SEC has issued a document calling for "objectives-oriented" standards, but I don't know exactly what that means either. We are going to have to experiment to determine exactly what that means. Ultimately, the key seems to be in the levels of implementation guidance and whether or not implementation will be uniform across jurisdictions. The most converged of standards won't matter very much if the implementation is dramatically different. So there's going to be a lot of pressure on implementation guidance, with respect to its type, its amount and its authority.