Remarks by Leslie F. Seidman
Chairman of the Financial Accounting Standards Board
To the National Association of State Boards of Accountancy
Monday, October 24, 2011 / Nashville, Tennessee

Introduction

Good morning. It's an honor to be here with you in Nashville, the country music capital of the world.

My remarks today reflect my own personal views, rather than an official position of the FASB.

That said, I'd like to spend the next few minutes sharing with you my thoughts on three subjects, all of which are very important to our profession – and to our country:

First – The status of our work with the IASB on converging some key accounting standards.

Second – My views about the incorporation process for IFRS laid out by the Securities and Exchange Commission

And third – Where we stand on the issue of standard-setting for private companies.

I will leave some time to answer your questions at the end.

Convergence

Let me start with our progress on the convergence of U.S. GAAP with IFRS.

As you know, the FASB has been working with the IASB to narrow the differences between U.S. GAAP and IFRS, to foster the goal of someday having accounting standards around the world that result in comparable, useful financial information.

We’ve already made a significant amount of progress. For example, we have largely converged our standards on business combinations, stock compensation, and nonmonetary exchanges, which together eliminated some of the most significant differences that had been reported by foreign private issuers. Sometimes we made changes to move the U.S. towards IFRS, such as in the case of business combinations. Sometimes the IASB made changes to move IFRS more towards U.S. GAAP, such as in the case of borrowing costs and segment reporting. We recently issued converged standards on the definition of Fair Value Measurement and the presentation of Comprehensive Income, which will bring greater consistency to reporting around the world.

The remaining priority issues to be resolved under our Memorandum of Understanding with the IASB are Revenue Recognition, Leasing and Financial Instruments. These topics reflect very prevalent transactions that most companies have, at least to some degree. The goal for all of these projects is to improve both IFRS and U.S. GAAP, rather than using either standard as the starting point. That is why these projects are so challenging – they will apply to almost every company around the world, and investors care about them -- so it is very important that we get them right.

Together with the IASB, we plan to issue a revised exposure draft on revenue recognition in the next few weeks. Even though most of the changes we made to revenue recognition addressed the comments people made on the first Exposure Draft, we decided to re-expose our work for quality control purposes: revenue is perhaps the single, most important line item in financial reports.

Before we leave the topic of revenue recognition, I’d like to mention the outreach efforts that we plan to undertake during the comment period. We plan to try a new technique for certain key sectors, where we will hold workshops, and ask companies to prepare “before and after” examples of their common transactions under current GAAP and the proposed standard. This will reveal whether companies understand the requirements and help identify any unintended consequences. We then plan to use these materials to discuss the results with users of financial statements to help them understand the nature of any changes that may result. We have other forms of field work planned, as well, which we view an essential element of our due process to evaluate the costs and benefits of new standards. We welcome your input and involvement in the process.

Moving to the leasing project, we just last week held a joint meeting with the IASB in Norwalk, during which we made several decisions relating to lessor accounting. I anticipate that we will hold a few more board meetings, with a goal of issuing a revised leasing exposure draft in the first quarter of 2012. The revised exposure draft will reflect several changes from the original ED, mostly to address concerns about complexity and several other matters. Our decision to re-expose the leasing document has been well received, because people want an opportunity to look at the revised conclusions in the context of the standard as a whole.

While it is true that re-exposing these standards will add to the timeline, the boards believe and global stakeholders agree that having more input now will improve the quality of the final standards that are issued.

On financial instruments, I can tell you that most people think impairment is the most important issue that we should be working on in response to the financial crisis. It is a very high priority of both boards to come to a converged solution that will be widely recognized as an improvement in reporting. We are developing an approach based on expected losses, rather than probable, incurred losses, which will reduce the barriers to timely loss recognition. We made progress at our joint meeting last week, and we are working hard to address the remaining issues at a determined pace.

Before I move on, let me make one final observation about the convergence process. As I look at the MOU projects, I think it's clear that some have been more successful than others. Why? What are the factors that have led to success and what are the ones that have deterred the two boards from agreeing?

I believe that we have been successful when we have:

1. Agreed-upon, clear objectives;
2. Fully integrated our staff teams;

3. Conducted deliberations and outreach jointly; and
4. Coordinated our timing.

In those instances in which our objectives have been unclear and when we have pursued the standard-setting process at different times, we have been less likely to reach consistent conclusions. It's not just inconvenient, and no doubt confusing for stakeholders; it undermines the goal of having a common reporting language.

I believe those observations will prove helpful as we continue our goal of working cooperatively to develop high-quality, comparable international accounting standards. I also think they are relevant to the private company issue, which I'll mention in a moment.

IFRS incorporation and "condorsement"

Let me now turn to the issue of whether and how the United States should move to incorporate International Financial Reporting Standards.

This issue has been in the news a lot lately, both here and abroad. Some articles suggest that support is growing in the U.S. for a longer and more gradual transition. Others speculate about the timing of a decision by the Securities and Exchange Commission, which has said in the past that it would take some type of action on the IFRS incorporation issue before the end of this year.

I'm not in a position to predict what the SEC will do or when they will do it.

But what I can do is to share my perspectives about where we are today and discuss the issues that I believe we as a country will need to address as we move forward with this important initiative. And let me remind you that the views I am about to express are my own. I'm not speaking for the FASB or the Financial Accounting Foundation.

To begin, let me make one point very clear: I believe that the FASB has long supported the goal of developing high-quality, comparable, global accounting standards.

We are committed to pursuing a deliberate process of collaboration with the IASB and other international standard-setting organizations to achieve that goal.

There is ample evidence of this commitment, beginning with the FASB's first plan for international activities, which was issued in 1991, and continuing through the current efforts to converge key U.S. accounting standards with those of the IASB, as I've just discussed. My frequent-flier status from crossing the Atlantic several times a year for joint meetings is further support of our ongoing commitment.

That said, as standard setters work to achieve more comparable global accounting standards, I believe it is important to recognize three key points:

- The United States has put in place over the past eighty years a set of high-quality accounting standards in the form of Generally Accepted Accounting Principles (U.S. GAAP). This has been achieved through the efforts of the SEC (since the enactment of the 1933 Securities Act), the state boards of accountancy, a rigorous auditing profession, and the independent standard-setting activities of the FASB and the organizations that preceded it.
- U.S. investors, preparers, auditors, users of financial statements, and other stakeholders want to have a strong, clear and effective voice in the standard setting process. I am happy to say that U.S. stakeholders, including the people in this room, care about accounting, and want to actively participate in the process.
- Any move toward international standards must maintain or improve upon the high quality of U.S. accounting standards.

As you know, the staff of the Securities and Exchange Commission (SEC) in May circulated a staff paper outlining one framework - "condorsement" - under which the United States could move toward adoption of IFRS, as promulgated by the IASB.

I think the "condorsement" process outlined by the SEC staff has many positive aspects.

First, “condorsement” shows U.S. support for the ongoing development of global accounting standards. As I mentioned, the FASB has demonstrated a strong and continuing commitment to making progress in this area.

Second, “condorsement” adopts the very practical approach of retaining the label “U.S. GAAP.” In other words, regardless of the *way* IFRS is brought into the U.S., it’s easier on the system if it’s called U.S. GAAP for federal and state legislative and regulatory purposes, contractual covenants, and those kinds of things.

Third, “condorsement” calls for some level of U.S. involvement in the establishment of any new standards. When I look at the letters that have come into the SEC, most people feel very strongly that they want to continue to have active participation in the process themselves, as stakeholders, but also that the FASB should continue to have a strong role in influencing what goes on the international agenda, the process by which these issues are analyzed, the level of implementation guidance provided, and the outreach that is conducted in the U.S.

Is this isolationist? I don’t think it is. I think it is an acknowledgment that if we want a global standard that the U.S. follows, it has to work *here*, in our environment, and we can work cooperatively to bring those insights to the discussion on a timely basis. I believe there are other countries around the world that also would seek substantive roles for their national standard setter in the process, such as Japan. I think there is a way to leverage the national processes and resources that exist, and with proper coordination, bring them to the development of international standards.

Fourth, “condorsement” recognizes that there should be a gradual approach to dealing with the remaining differences between U.S. GAAP and IFRS. We’re in a very different position than a lot of other countries that have gone through this endeavor and we need to go through a thoughtful exercise to look at those differences and determine the best course of action for the U.S.

Let me elaborate on that for a minute. There are many remaining differences between U.S. GAAP and IFRS, but they are not all of the same nature or magnitude. For example—

- Sometimes, we have a standard and they do not. Rate regulation is one important example. In my opinion, it would be preferable for us to keep U.S. GAAP in those cases, until an appropriate international standard has been set.
- I would look at the remaining differences and ask: are these differences important?
  - Clearly, some of them are. For example, the difference between U.S. GAAP and IFRS on Research and Development is a core issue for some companies and their investors. I think this difference must be addressed.
  - Likewise on recycling amounts out of other comprehensive income to net income. U.S. GAAP does; IFRS does not (usually). This is a very important issue to investors.
  - On impairment losses for hard assets: IFRS reverses if a recovery occurs; U.S. GAAP does not. This is an important difference that must be resolved.
- However, some other differences seem less important from a decision-making standpoint:
  - For example, does it really affect an investment decision if we depreciate things differently? If not, it might not be worth the systems costs of doing the conversion, at least not as a high priority item.
- There also are differences in the way the international standards are applied, and it is important to understand why--
  - If there is ambiguity in the standard, we can fix that.
  - If there are differences in the way standards are complied with around the world, that would seem to require coordination among international auditors and regulators, which seems to be gaining some recent traction.

- But if the resulting information is not reasonably consistent—for whatever reason -- it calls into question whether the benefit is real, and whether the costs are justified. I should point out that the SEC staff has said that it plans to issue a report on the consistency of application of IFRS in the near future, which should shed some light on this issue.

I think we will need to establish a framework to identify these various types of differences, and then develop a plan for the best way to resolve them. Clearly, we would seek broad input on that analysis.

Much has been said about the threshold that the FASB would use to endorse the standards set by the IASB under a "condorsement" approach.

First, let me state that if the U.S. has an active, substantive role – from the beginning of the process through the end – I think it increases the likelihood that a standard would ultimately be endorsed by the U.S.

Second, the way I would think about endorsing any standard for the US would be:

- Was the process conducted in an independent manner that considered the conceptual framework and the views of U.S. investors and other stakeholders?
- Will this standard represent an improvement in information for the users of financial statements in the U.S.?
- Can U.S. preparers apply the standard consistently and at a reasonable cost?

I think we would need to have a serious concern about the process, the usefulness of the information in the U.S. environment, or about the operationality of the proposed standard for us to not endorse the standard. This would not be a mere matter of personal preferences.

I see the role of the FASB as very much facilitating that kind of approach. We would help our country understand what changes are being proposed, gather their input, and be a strong voice in the process to make sure we end up with standards that benefit U.S. investors, preparers, auditors and other stakeholders. One thing I am encouraged to see is that the IASB has said that they will step up their interpretive function (IFRIC), which is another issue that many people raised in their letters to the SEC.

I look forward to working with my fellow board members, the FAF Board of Trustees, the IASB and the SEC to ensure that these goals are achieved as we continue to move toward the development of comparable international standards.

Private Company Accounting

Now let me turn to private company accounting….

As you know, the FAF Board of Trustees recently issued for public comment a Plan to Establish a Private Company Standards Improvement Council.

The intent is to better address the financial reporting needs of lenders, investors, and other users of private company financial statements, as well as the concerns of private company preparers and auditors.

I should add that that all seven FASB Board members view it as a priority to respond to the significant concerns that have been raised, and I'd like to make sure you are aware of some significant progress in that regard.

Let me start with people. We've put in place an expanded professional staff to address private company issues, and these individuals are part of every project team. We also added a FASB board member with a private company preparer background, and another Board member with significant experience investing in and auditing private companies. Speaking for myself, as the step-daughter of a CPA in NC, the first cousin of a CPA in SD, and the spouse of a private company owner, you can be sure that if I didn't hear you at the office, I can be sure to hear about it at home. Kidding aside, we have taken steps to bolster the private company voice in Norwalk.

We have also significantly increased our outreach to private companies, and taken other steps to make private company concerns an integral part of every standard-setting deliberation we undertake.

Did you also know:

- Based on specific feedback from private companies, we started a webcast educational series where we offer CPE
- We used a web-based short form to gather feedback on a recent exposure draft, in response to concerns from private company practitioners that they don't have time to write a long comment letter, which we plan to use on our upcoming exposure drafts
- We have held short podcasts on every major proposed and final change in accounting so people can quickly assess their level of interest and the nature of the changes
- We have modified our effective dates on most standards to allow more time for private companies to learn about the changes and adopt them, and
- We issued an article describing what we heard from stakeholders about the unique circumstances and perspectives of private companies that might warrant differences in accounting standards. We plan to use this information to develop a framework for evaluating differences for private companies.

These are just a few examples of meaningful process changes to enable us do a better job understanding and acting upon private company concerns.

Some of you may be saying, that's nice, but what changes to standards have you made? In other words, "Where's the beef"?

A great example of how these process changes affected the standard is our recent standard on goodwill impairment testing.

That project grew out of concerns we heard from users and preparers of private company financial statements at a series of roundtables that we hosted last year.

These private company constituents shared the view that testing for goodwill impairment was too complex and expensive, and offered us some good advice on how to simplify the process without reducing the resulting information set.

As we considered those comments, it became clear that this was an issue that went beyond private companies. As a result, we undertook a project intended to simply the calculation of goodwill impairment for all constituents, which we started last December and completed this September.

The amendments approved by the Board will reduce complexity and costs by allowing a company – either public or private – to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it needs to calculate fair value to actually measure the impairment.

Another important example of how feedback from private company constituents directly affected the results is our recently completed project on multiemployer pension plan disclosures. Two of the industries in which these plans are widely used – construction and transportation – are dominated by companies that are privately owned.

While many stakeholders supported the FASB's efforts to enhance disclosures about an employer's participation in multiemployer plans, some did not believe the board's initial exposure draft struck the right balance between the costs that companies would incur to prepare the disclosures and the benefits that users would derive.

The board listened, and made significant adjustments to the original proposal as a result of the feedback from private company constituents and others.

Both of these cases represent good examples of how the FASB's focus on the needs of private company constituents can benefit all of our stakeholders.

I have been a member of the board for 8 years, and I have been very candid in admitting that we could have done a better job addressing private company issues in the past. I hope you can see that we have made meaningful process changes that have clearly led to changes in the standards, as well.

I believe the Private Company plan proposed by the FAF Trustees will build on and augment the efforts that the FASB already has undertaken to address private company issues. By establishing a standing Council, with separate oversight by our Trustees, I think it alleviates the concerns I have heard about the changes we have made being temporary rather than being embedded in the structure and processes of the organization.

Under the proposed plan, the new Private Company Council would identify, propose, deliberate, and formally vote on specific exceptions or modifications to U.S. GAAP for private companies. They would look at old standards, as well as the ongoing standards being set by the FASB.

These deliberations would be conducted in meetings attended by members of the FASB, who would ratify any changes put forward by the Council. The process being proposed is quite like the EITF, but the scope of the mission is different and broader.

Creation of the new Council would represent a major step forward in the standard-setting process for private companies, and will build on the work of the Private Company Financial Reporting Committee (PCFRC), an advisory group that was created in 2006.

The PCFRC made important progress in representing the interests of users, preparers, and auditors of private company financial statements, but frankly, I believe that the effort was not wholly successful in two respects.

First, the PCFRC and the FASB did not develop a common understanding or framework for considering when exceptions or modifications to U.S. GAAP for private companies are appropriate.

Second, the two organizations did not integrate their people or operational processes. This hearkens back to the points I made at the beginning about the success factors for working with the IASB. I think it is crucial to have common objectives and coordinated teams and processes to ultimately agree on the best way to solve a problem.

In retrospect, our approach to setting up the PCFRC was not a recipe for success. However, the trustee's plan would directly address both of the issues I just mentioned.

As you know, creating a separate standard-setting board for private companies under the auspices of the FAF was one of the recommendations made earlier this year by the Blue-Ribbon Panel on Standard Setting for Private Companies.

The Trustees' proposal has generated heated criticism in some quarters, largely because the Trustees felt it was important to maintain the FASB's role as the sole standard-setting board for U.S. GAAP through the ratification mechanism. But what has been overlooked in the debate thus far is that the Trustees adopted virtually every other recommendation that the Blue-Ribbon Panel made.

The Blue-Ribbon Panel called for creation of a new body, under the supervision of the FAF Trustees, which would ensure that appropriate exceptions and modifications are made to U.S. GAAP for private companies.

The Blue-Ribbon Panel recommended development of decision-making criteria to enable standard-setters to determine whether and when exceptions or modifications of U.S. GAAP for private companies are warranted.

The Blue-Ribbon Panel called for a comprehensive review of the new board's work in three to five years.

And the Blue-Ribbon Panel called on the Trustees to include issues related to private companies in its new post-implementation review process. Each of these recommendations was included in the plan issued by the Trustees.

After meeting with many, many stakeholders and weighing some divergent views, the Trustees decided against the idea of creating a second standard setter for private companies because they believed that setting up such a board could, over time, lead to more significant differences between the standards for public and private companies.

Again returning to my earlier comments describing our experience working with the IASB, reasonable people disagree about accounting matters. It is hard enough to get the FASB members to agree; trying to get two independent organizations to agree is demonstrably difficult, despite strong commitment to the goal; adding a third organization to the mix makes it even harder, and adds unnecessary complexity, in my opinion.

Speaking of complexity, that is another point I would like to emphasize. I believe a significant concern of private companies is the high level of complexity they see in several recent standards, including FIN 46, FIN 48, the goodwill impairment issue, and standards requiring a fair value measurement. One of the benefits I see to integrating the private company committee with the FASB is that any simplifications can be considered concurrently for all companies. In other words, maybe sometimes it doesn't need to be different, but it needs to be *less complex*.

To illustrate the point, the comments we received on the revenue recognition proposal and the leasing proposal were virtually identical between public and private companies (both here and internationally). Most of them raised concerns about complexity. In our consideration of those issues, we made numerous changes to reduce the complexity of both standards for all stakeholders. I am not suggesting that there aren't unique concerns for private companies. But I am suggesting that a significant benefit of addressing them within the same organization is that when the issue turns out to be a common concern for public and private companies, we can address the issue for both and narrow the differences that emerge over time.

The Trustees are seeking comments on the proposal through January 14, 2012. I would urge you to share your comments in the coming weeks, so that the Trustees can benefit from your thoughts on this matter – a matter that is of vital importance to us as accountants as well as to our ultimate customers, the users of financial statements. I know the FAF appreciates the positive comments Michael Daggett has made about the vigorous process that was used to inform the FAF proposal, and I certainly appreciate your acknowledgement of the FASB's efforts to address the issues. I assure you, we will continue to demonstrate our understanding of private company concerns in our standard-setting activities going forward.

Thank you for your attention.

I’m happy to take your questions.