

This series presents the PricewaterhouseCoopers Point of View on a range of auditing, accounting and regulatory issues affecting our clients and our profession. These positions represent the collective view of our network of firms.

Convergence of IFRS and US GAAP

What are the issues?

Current accounting and reporting practices fall short of meeting the information needs of the capital markets in the 21st century. The convergence of US GAAP and IFRS is now at a critical, early phase. Will convergence rise to the challenge of meeting those needs?

What is our response?

- 1 PwC supports the global convergence of accounting standards.** The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital markets stakeholders.
- 2 PwC recognises that convergence is a long-term process.** While it may take years to reach the important goal of a single set of standards, progress has already been achieved. In the near term, there will be two standard setters and a mix of standards, some prepared and issued jointly, others prepared and issued independently within the framework of convergence. Ultimately, the two standard setters will achieve a level of 'substantial equivalence' sufficient to eliminate the SEC's required reconciliation to US GAAP for foreign private issuers. We trust that both standard setters will move with a sense of urgency toward this goal. The appropriateness of maintaining two separate standard setters on a long-term basis deserves careful analysis.
- 3 PwC's support for continued convergence is qualified by our desire for a new 'blueprint' focused on the scope of reporting, simplification, and market relevance. PwC calls for informed global debate on these issues.** Focused on realistic economic representation, accounting standards should address the legitimate needs of key stakeholders and provide a comprehensive overview of financial information. Standards must be as simple and understandable as possible, recognising the complexity of transactions, and should be practical and cost-effective. Addressing broad issues, they should favour principles and the exercise of professional judgment over rules, safe harbours, and exceptions. The reporting model must facilitate prediction of future performance and provide comparability across companies and industries.

4 PwC recognises cultural, legal, and political obstacles along the convergence path and calls on the appropriate authorities to minimise these difficulties. Legislators, regulators, and standard-setting bodies need to be aware of the fault lines in the current convergence process and, where appropriate, should take action to ensure progress. In particular there is significant concern that, without some revision, the existing U.S. legal, regulatory and standard-setting system will unduly influence the next critical phase of convergence.

5 PwC believes that additional strategies, protocols, and tactical agreements are needed to further the convergence process. The MOU issued by the FASB and IASB in February 2006 was a positive step, but only a beginning. Attention must be given to the process of developing converged standards that fairly reflect the views of the global audiences to which they are accountable. The Boards need to engage investors, preparers, and auditors in a much more robust and thorough way. Further, developing high-quality standards to meet the needs of today's global capital markets may well require adding new skills to the existing organisations.

What does this mean?

PwC is among the stewards of the integrity and efficiency of global capital markets. By adopting and acting vigorously on this Point of View, we will demonstrate that we are committed to ensuring that the convergence process is focused on delivering a more effective, market-oriented reporting model. We have much to lose if the reporting model and the assurance provided by audits are seen as a sterile compliance process; hence, the strategic importance to all stakeholders of PwC's participation and leadership in shaping the next phase of the convergence process.

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