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Former SEC Chair Cox Backs Away from IFRS Support

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BY MICHAEL COHN

Christopher Cox, the former Securities and Exchange Commission chairman whose support for converging International Financial Reporting Standards with U.S. GAAP was crucial in setting up a "roadmap" for harmonizing the two sets of accounting standards, has reversed course.

Only about a week after the Financial Accounting Standards Board and the International Accounting Standards Board released their converged revenue recognition standard, Cox told a group of accountants that he had come to "bury IFRS."

"Today there is a real risk that the continuing increase in global trading and investing has gotten far ahead of the accounting standards that are necessary to make it all work," Cox said Thursday during a speech at the SEC and Financial Reporting Institute Conference in Pasadena, Calif. "That is why, when I was SEC chairman, I worked to ensure that the United States was doing everything necessary to make financial information from companies in different countries both comparable and reliable. But that was several years ago. And a great deal has changed since then. Today, I come to bury IFRS, not to praise them."

Cox added that too much time has elapsed without enough to show for it. "The fact is, far too much time has gone by with no meaningful progress," he said. "I think we have to fairly conclude that the moment has passed. Full-scale adoption of IFRS in the United States might once have been possible, but it is no longer. This is not a prognosis. It's just a statement of fact."

He noted that organizing the entire planet behind an idea as big as a universal language of financial reporting takes enormous effort and constant commitment.

"Endless reasons can easily be marshalled for why it can't be done, and they are always relentlessly tugging away at the enterprise," said Cox, who is currently a partner at the law firm Bingham McCutchen and president of Binghasm Consulting. "A half dozen years ago, the stars were aligned to make it not impossible that the United States could actually join and perhaps even lead this global effort."

He pointed to predictions in 2007 from Bloomberg BNA's Accounting Policy & Practice Advisory Board and in January 2008 from participants in a FASB roundtable that it would take about five years to complete America's shift from U.S. GAAP to IFRS.

The SEC proposed an IFRS roadmap in August 2008 during Cox's last year of his tenure as SEC chairman, after the SEC allowed foreign companies to file their financial reports in IFRS with the SEC without reconciling them with U.S. GAAP (see SEC Proposes IFRS Roadmap). But Cox's successors, Mary Schapiro, Elisse Walter and Mary Jo White, along with the other SEC commissioners, have not followed through on approving the proposals. Instead, the SEC has mostly focused on dealing with the fallout from the financial crisis and drawing up financial regulations and reports mandated by the Dodd-Frank Act, the JOBS Act and other legislation in the intervening years.

"Well, almost seven years have passed since then," said Cox. "Rather obviously, the high tide of American enthusiasm for IFRS has receded. The SEC still says that IFRS is a priority, and there is good reason for that. After all, most of the rest of the world uses it, not to mention more than 400 foreign private issuers right here in U.S. markets. But moving the United States toward IFRS is clearly not a priority. This doesn't mean that the SEC isn't executing on its priorities. Rather, it means that public companies and investors aren't saying clearly that they want it. That's why today there is not even a plan for expanding the voluntary use of IFRS, in the way that, for example, Japan has done."

Cox took issue with the attitude of the IASB members. "On the few occasions when IASB members did appear at U.S. roundtables and meetings, they seemed aloof," he said. "They simply weren't accustomed to the more relaxed and supple interactions that

FASB has been able to have with stakeholders over the years. But American investors, companies, preparers, and user groups noticed something else. In its efforts to be more accommodating to their international counterparts, the FASB itself was becoming more like the IASB."

He pointed to remarks from IASB chairman Hans Hoogervorst. "My friend Hans Hoogervorst, in his role as IASB chairman, has sometimes sounded confident about the prospects of the SEC allowing at least large multinational issuers the option to adopt IFRS, said Cox. "Not long ago he was quoted as saying, 'The U.S. ultimately will come on board. Quite simply, they need us and we need them.' I know he believes this; he has told me so himself. But after the SEC released its Work Plan for the Consideration of International Financial Reporting Standards for US Issuers— that was in 2012— the IASB could no longer maintain the myth that United States participation was coming along, slowly but surely."

The IASB issued a statement from Hoogervorst responding to Cox's remarks. "Former Chairman Cox has shifted his focus from a single set of high quality global standards to maintaining a national standard setter that is 'supple' when responding to domestic priorities and concerns," said Hoogervorst. "We continue to believe that investors are best served by high quality globally comparable information, and that includes US investors. As former Chairman Cox noted, U.S. investors have trillions of dollars invested in entities reporting under IFRS. We never forget the importance of these stakeholders and are expanding our efforts to reach out and consult with them on all of our projects.

"I believe that we are on the right track with leases, and have disagreed before with former Chairman Cox about this," Hoogervorst added. "Both the IASB and the FASB have reaffirmed the heart of our proposals—that lessees need to put this missing obligation on their balance sheet. This is what the SEC staff itself suggested in a 2005 report under Sarbannes-Oxley. At the same time, they cautioned that these reforms would be highly controversial and meet strong resistance. I'm sorry to say that they were right."

Cox compared the prospects for IFRS in the U.S. to an old Monty Python skit. "For those of you who remember Monty Python, I think Michael Palin, in speaking about John Cleese's parrot, said it best: This parrot is no more. It's not simply resting, or momentarily stunned. The prospect of full scale IFRS in our lifetimes has ceased to be," he said. "It is bereft of life. It rests in peace."