

Northwestern Journal of International Law & Business

Volume 25

Issue 3 *Spring*

Spring 2005

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Mary Tokar

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Recommended Citation

Mary Tokar, Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge, 25 Nw. J. Int'l L. & Bus. 687 (2004-2005)

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Convergence and the Implementation of a Single Set of Global Standards: The Real-Life Challenge

*Mary Tokar**

I. BACKGROUND

This paper addresses the impact of convergence on auditing firms by focusing on the adoption of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).¹ While the adoption of the IFRSs by companies around the globe is intended to achieve convergence in accounting by eliminating different national approaches to financial reporting, many challenges arise from the process of adoption of the IFRSs, as well as from the ongoing and still incomplete process of convergence of national standards with the IFRSs.

Accounting standards are the authoritative conventions, rules and guidelines used to measure and report the resources, obligations, income and expenses of business entities.² Despite the passion brought to the debates about what the requirements of an accounting standard should be,

* Mary Tokar is a partner in KPMG LLP (US). Currently she is seconded to KPMG IFRG Limited and focused on IFRS interpretation and application matters. She is also a member of the IASB's interpretive committee, IFRIC. Previously, she worked at the U.S. Securities and Exchange Commission principally on international accounting issues. Ms. Tokar wishes to thank her colleagues, especially Paul Munter, a partner in the Department of Professional Practice of KPMG LLP, for their assistance and advice regarding this article. The views and opinions are those of the author and do not necessarily represent the views and opinions of KPMG International or KPMG IFRG Limited. All information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity. KPMG International is a Swiss cooperative of which all KPMG firms are members. KPMG International provides no services to clients. Each member firm is a separate and independent legal entity and each describes itself as such.

¹ The IASB announced responsibility for setting the IFRS standards on April 1, 2001. See International Accounting Standards Board, History, at <http://www.iasb.org/about/history.asp> (last visited Mar. 11, 2005).

² Analysis of Asset Allocation, Financial Dictionary and Glossary, available at http://www.asset-analysis.com/glossary/glo_001.html (last visited Mar. 11, 2005).

there are no absolute scientific truths waiting to be discovered or proved by experimentation and empirical testing. The passion comes, in part, because requirements of standards impact how entities present themselves to others: successful (higher profits), reliable (stable levels of profitability), attractive (rapidly growing profits) and credit-worthy (substantial assets, low levels of indebtedness). Also fueling the debate is the fact that how—or whether—transactions are reported in the financial statements impacts company behavior. It has been said that “you manage what you measure”—a behavior that was readily observable, for example, once post-retirement benefits were subjected to accrual accounting.³

The objective of convergence of accounting standards is to have entities in different capital markets use the same conventions to measure and report their financial position and financial performance. This is a notable and worthwhile objective because differences in conventions impact the data available for making investment decisions affecting the investment decisions themselves. For example, an individual wishing to invest twenty percent of his or her net worth in pharmaceutical companies might focus on the percentage of earnings reinvested by a company in research and development (R&D) as a key performance indicator (KPI) of future growth, and might use a ratio of R&D expense as a percentage of revenue to rank investment possibilities. If this investor considered only domestic entities, he or she could expect that the financial statements of the pharmaceutical companies would be comparable with both R&D expenditures and revenues measured using the same conventions. However, if that investor wished to consider some foreign companies as possible investments and obtains the financial statements of those additional candidates, how useful are comparisons based on quantitative KPIs that are derived from information in the financial statements?

What if revenue is measured on an accrual basis (when earned) by domestic companies but one of the foreign candidates uses a cash (when received) basis to report revenue? Or if the domestic company expenses R&D as incurred while the foreign company expenses research but capitalizes development cost? Such differences in accounting conventions would impact the comparability of the published financial statements and the related analysis based on that information.

In the past, each jurisdiction has decided how best to address differences in accounting conventions and the impact of these differences on investment allocation decisions within their markets. The U.S. Securities and Exchange Commission (SEC) has permitted non-U.S. companies registered with the SEC as foreign private issuers to report using

³ See, SUMMARY OF STATEMENT NO. 106, EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Financial Accounting Standards Board 1990), available at <http://www.fasb.org/st/summary/stsum106.shtml>.

financial statements prepared under their home-country accounting standards, IFRSs, or U.S. Generally Accepted Accounting Principles (U.S. GAAP). However, the entities that use either home-country accounting standards or IFRSs are required to provide a quantitative reconciliation of at least net income and shareholders' equity to a U.S. GAAP basis.⁴

Analysts also have sought to address this challenge by adjusting financial statements to a common basis to facilitate industry-based comparisons of investment alternatives. For example, in 1998 Morgan Stanley introduced its "Apples to Apples" series,⁵ which focused on six important accounting issues and sought to adjust different national treatments for these issues to one common approach. However, Morgan Stanley warned in a follow-up publication that "the accounting measures we use might understate actual value. Because of inadequate disclosures, we had to estimate adjustments and have been unable to adequately evaluate three potentially important issues: financing, the impact of foreign exchange on revenues and expenses, and provisions."⁶ Thus, attempts to address challenges in this area present new challenges of their own.

II. THE CONVERGENCE JOURNEY

Regulators, investors and preparers have begun working together to find a workable long-term solution to the problem of differences in the accounting conventions used to prepare financial statements. These efforts have focused on the work of the IASB and its predecessors through two distinct routes: direct adoption of IFRSs in place of national GAAP, and

⁴ See Form 20-F, Items 17 and 18, 17 C.F.R. § 249.220f (2005). The financial statement requirements for foreign private issuers are included in the requirements of this form:

The financial statements and schedules... may be prepared according to United States generally accepted accounting principles. Alternatively, such financial statements and schedules may be prepared according to a comprehensive body of accounting principles other than those generally accepted in the United States if the following are disclosed: (a) an indication... of the comprehensive body of accounting principles used... (2) a discussion of the material variations in the accounting principles, practices and methods used in preparing the financial statements from the principles, practices and methods generally accepted in the United States and in Regulation S-X. Such material variations shall be quantified... for each year and any interim periods for which an income statement is presented, net income shall be reconciled in a tabular format...; for each balance sheet presented, indicate the amount of each material variation... in parentheses, in columns, as a reconciliation of the equity section, as a restated balance sheet, or in any similar format...

In practice, most entities present a reconciliation of shareholders' equity and net income.

⁵ MORGAN STANLEY DEAN WITTER, APPLES TO APPLES – OVERCOMING ACCOUNTING DIFFERENCES: A STOCKPICKER'S GUIDE TO THE NUMBERS THAT COUNT (1998).

⁶ MORGAN STANLEY DEAN WITTER, APPLES TO APPLES – GLOBAL AUTOMOTIVE: TELLING IT LIKE IT IS 4 (1998).

indirect adoption of IFRSs by changing national standards so that they are based on—or, in the extreme—even copied directly from IFRSs. The indirect adoption approach led to several joint projects between national standard setters and the IASB to increase the likelihood that a national standard and its comparable IFRS are the same.⁷

The IASB has been supportive of, and an active participant in, both approaches. In fact, the promotion of both the direct use of IFRSs and convergence of national and international standards are key objectives identified in the IASB's constitution.⁸

An example of a modified direct approach to adoption of IFRSs is the European Union's newly-effective International Accounting Standard (IAS) Regulation.⁹ In 2002, the European Union passed this legislation requiring the use of international accounting standards, once endorsed, by E.U. companies listed on any capital market exchange within the European Union. Generally, the use of standards endorsed by the European Union is required for these companies in their consolidated financial statements for financial years beginning January 1, 2005. The E.U. requirement refers to the standards and interpretations issued by the IASB, but their use is subject to the endorsement of those standards by the European Commission (E.C.). As discussed later in this paper, the requirement to use standards endorsed by the E.C. has resulted in some modifications of standards issued by the IASB. As a result, what had been seen as a pure direct approach to adoption of IFRSs has become at least in part an indirect adoption of those standards as a form of E.U. GAAP.

Other countries, including Australia, Russia, and a number of Latin American and Caribbean countries, are permitting or requiring the use of IFRSs, generally without any additional endorsement or review, although Australia is modifying standards as issued by the IASB by prohibiting the use of some of the options offered by IFRSs and by providing additional

⁷ See Financial Accounting Standards Board and International Accounting Standards Board, Memorandum of Understanding, "The Norwalk Agreement," available at http://www.fasb.org/intl/convergence_iasb.shtml (Sept. 18, 2002) [hereinafter The Norwalk Agreement]. In the agreement, the IASB and FASB pledged to use their best efforts to work together to achieve convergence of their two sets of standards for a wide range of topics. Additionally, they pledged to coordinate the efforts of their respective interpretive bodies so that implementation guidance might help facilitate a converged application of the converged standards. Press Release, International Accounting Standards Board, IASB, FASB and IASB Agree to Work Together toward Convergence of Global Accounting Standards, available at <http://www.iasb.org/docs/press/2002pr15.pdf> (Oct. 29, 2002).

⁸ See International Accounting Standards Committee Foundation, *Review of the Constitution: Proposals for Change*, available at http://www.iasb.org/uploaded_files/documents/8_949_2004-cons-itc.pdf (Nov. 1, 2004).

⁹ Parliament and Council Regulation 1606/2002 on the Application of International Accounting Standards, 2002 O.J. (L 243) [hereinafter EU IAS Regulation].

interpretive guidance on their application.¹⁰ More recently, Canada has begun exploring the possibility of converging its standards with IFRSs.¹¹

III. IMPACT OF THE CONVERGENCE PROCESS

The widespread adoption of IFRSs, both directly and indirectly via convergence of national requirements, presents a number of challenges for auditors both as individuals and as firms. These challenges include:

- Training of professional staff in a new body of requirements
- Developing IFRS-based resources to support professionals working with IFRSs
- Applying existing quality-control procedures to IFRS-based work

For countries that are using the indirect approach, national practices and professional institutes have mechanisms for dealing with convergence effected through changes in national standards (ongoing training requirements, existing testing, certification and examination mechanisms) since the change is more evolutionary than revolutionary—although that does not resolve the issues completely. Nonetheless, the challenge can be much greater for countries that opt for direct adoption of IFRSs, since there is no corresponding single international regulatory framework or infrastructure built around IFRSs, and companies and their auditors often are required to make wholesale changes in their financial reporting practices.

These challenges affect all stakeholders in today's global capital markets, requiring significant increases in coordination with counterparts in different countries. For example, if the IASB and the FASB are exposing the same proposals simultaneously as possible changes to IFRSs and U.S. GAAP, who should solicit responses from U.S. constituents and who should be the "voice" for an international organization (either a company or an accounting firm)? Should an international organization have one response for the IASB and a separate (and perhaps different) response for the FASB? How should each standard setter maintain its independence as a standard

¹⁰ The Australian Financial Reporting Council adopted a strategic directive of ensuring that for-profit entities applying Australian Accounting Standards Board standards for reporting periods beginning on or after January 1, 2005 also will be complying with IFRSs. See *Adoption of International Accounting Standards by 2005*, Bulletin of the Financial Reporting Council 2002/4, available at www.frc.gov.au/content/bulletins/bull_2002_4.asp (July 3, 2002).

¹¹ See Accounting Standards Board of Canada, *Accounting Standards in Canada: Future Directions*, available at http://www.acsbcanada.org/index.cfm/ci_id/21832/la_id/1.htm (May 31, 2004).

setter and yet still coordinate with the other body to achieve the objective of a single conclusion? Should each national securities regulator make its own decisions about whether a converged standard has been applied properly in its jurisdiction? Should the SEC conclude on an application of a “converged” U.S. GAAP standard without consulting with its securities regulatory counterparts in other countries who are responsible for enforcing the application of the international version of that same standard to see if all the regulators are interpreting the same requirements in the same way? Can a national interpretive body interpret a converged standard in a manner that is inconsistent with those of other national interpretive bodies? If it is the first to provide interpretive guidance, does its interpretive guidance automatically become binding on users of IFRSs in other jurisdictions? Is the SEC’s guidance on the application of U.S. GAAP—either the requirements of Regulation S-X or the interpretive guidance provided in SEC Staff Accounting Bulletins¹²—applicable to IFRSs that are consistent, at least in principle, with comparable U.S. GAAP? And, turning to the public accounting profession, how do the national practices that make up the member firms of global accounting networks develop coordinated positions and resources for practicing around the world as auditors (and thus, in part as arbiters) on the application of a single set of accounting standards?

IV. HOW DOES ONE GLOBAL ACCOUNTING NETWORK DEAL WITH CONVERGENCE?

The remainder of this paper describes how KPMG International (KPMG),¹³ one of the “Big Four” accounting firms, has responded to the challenge of building an IFRS-based infrastructure within its global network of member firms. KPMG, like the other Big Four firms,¹⁴ has supported the development, adoption, and application of IFRSs as a single set of high-quality global accounting standards.¹⁵ KPMG also seeks to build resources, networks and infrastructure to support the delivery of IFRS-based audit and advisory services around the globe. One of the key challenges of doing this is coordinating the day-to-day operating activities

¹² See SEC Regulation S-X, art. 4, 17 C.F.R. § 210.1-01 [hereinafter Regulation S-X]; Division of Corporation Finance and the Office of the Chief Accountant, Staff Accounting Bulletins, available at <http://www.sec.gov/interps/account.shtml> (last visited Mar. 30, 2005).

¹³ Throughout this document, “KPMG” refers to KPMG International, a Swiss cooperative that serves as a coordinating entity for a network of independent member firms, or to any one or more of such firm, including subsidiaries and sub-licensees. KPMG International provides no professional services to clients; rather, its member firms do.

¹⁴ The other “Big Four” firms are Pricewaterhouse Coopers, Ernst & Young, and Deloitte & Touche.

¹⁵ See Letter from KPMG IFRG Limited to Paul Volcker (June 28, 2004), available at http://www.kpmg.co.uk/ifrs/pub_other.cfm.

of over 140 separate, independent national practices that are member firms of KPMG International when rendering a conclusion on the appropriate application of IFRSs. Like the regulators and standard setters, the firms face the challenge of functioning with a single, integrated “voice” while remaining separate and independent legal entities.

A. What are the issues for KPMG?

The key implementation issues include:

- Training professionals to “speak IFRSs”
- Avoiding divergence through different interpretation
- Developing publications and electronic resources to support IFRS-based audit and advisory practices
- Adapting existing quality control and professional practice mechanisms within each member firm to address IFRS issues
- Coordinating participation in the standard-setting process, including responses at a national level for projects that are linked to IASB standards or projects.

B. How have we addressed these issues?

1. Structure: centralized or distributed?

KPMG decided that IFRS capabilities should be distributed worldwide rather than concentrated in a single location and that most of these resources should be integrated into existing national structures rather than overlaying a different international structure to address IFRS issues. This decision was based in part on recognition of the need for IFRSs to become “business as usual” for each member firm. Therefore, national practices have developed IFRS capabilities, initially within their national professional practice function and then more broadly as part of the core competencies of a national practice. Doing so has required the investment of significant resources and, in many countries, requires that personnel be trained on both local GAAP and IFRSs.

However, KPMG recognized that these national initiatives had to be supported and coordinated for there to be consistent application and interpretation of IFRSs among the member firms. Therefore, KPMG established its global IFRS resource group (IFR Group) in 1997.¹⁶ The IFR Group is a focal point for KPMG’s IFRS activities and does not seek to

¹⁶ Since 2004 this has been done by KPMG IFRG Limited, a U.K. company limited by guarantee. In this paper, the term IFR Group is used to refer to both KPMG IFRG Limited and to the previous resource group. KPMG IFRG Limited is a separate legal entity that is a member of KPMG International.

replicate or replace the work of national Departments of Professional Practice (DPP). Instead, it acts in a global capacity, coordinating and supporting the work of the national DPPs in the application of IFRSs. It also supports other networks created to coordinate IFRS work within the member firms. Six partners seconded by four member firms (Germany, the Netherlands, the United Kingdom and the United States) and managers from ten countries work on a secondment (loan) basis for the IFR Group.

2. The training challenge

While practices differ from country to country, the two main methods for accountancy firms to develop their professionals begin either by hiring trainees who have studied accounting, normally through a university program, or by hiring graduates with “non-relevant” degrees who pursue an intensive accounting training course after joining the firm. In either case, most countries require those holding themselves out as certified public accountants (CPA) or the equivalent to pass a national examination, such as the U.S. Uniform CPA exam. In addition to requiring academic or equivalent training credentials, these exams normally require a minimum period of supervised work experience under individuals who are licensed CPAs.

Not surprisingly, these national examinations and licensing programs normally are based on national accounting regimes. For example, U.S. CPAs are tested on knowledge and application of U.S. GAAP. While a few accreditation bodies have started offering IFRS-based curricula and examinations, the vast majority continue to focus their examinations and licensing requirements on the application of national GAAP.¹⁷

Of course, the professionals working for firms who currently are licensed also have been trained in their national GAAP, rather than in IFRSs. While national and regional regulators introduced requirements for adoption of IFRSs for financial reporting, at this time none has introduced specific requirements for individuals involved in preparing or auditing IFRS financial statements.

Therefore, it is the responsibility of the individual KPMG member firm to determine what requirements it will establish for those who will work on IFRS-based engagements. In many cases, KPMG member firms decided to develop and deliver the IFRS training internally rather than contracting with outside bodies or relying on national profession-based or commercial training events. As a result, KPMG member firms had to:

¹⁷ The U.K. International Accountancy Body is one of the few professional institutes to offer an IFRS-based examination. See the ACCA website, *available at* <http://www.acca.org.uk/ifrs> for details of its International Financial Reporting certificate and International Financial Reporting diploma programs (last visited Mar. 27, 2005).

- establish “credential” requirements
- obtain or develop training material
- determine the extent to which IFRS training was required
- deliver the training
- test compliance with credential requirements

In order to determine how extensive the training needed to be, member firms needed to determine how many clients were expected to adopt IFRSs. From that information, it could be determined what proportion of the total client base would be using IFRSs and, therefore, what percentage of the professional staff, and more specifically which individuals, would be assigned to those engagements. From a member firm’s perspective, it is not cost-beneficial to provide IFRS training to those who will be working only on local GAAP-based statutory financial statements in IFRS. This estimation process was complicated, especially within the European Union, because some member states are still determining whether the use of endorsed standards should be permitted or required more broadly than the minimum level specified in the E.U. IAS regulation. This consultation was ongoing throughout 2004. As of July 12, 2004, only three of the fifteen original E.U. member states had completed their consultations.¹⁸

Another issue relevant to developing training plans was the extent to which the national GAAP in which professionals were trained was similar to or different from IFRSs. This, in turn, required national practices to develop or obtain an in-depth analysis of the differences between their national GAAP and IFRSs, a task complicated by the extensive changes being made to IFRSs in the 2001-2004 timeframe.¹⁹ Each member firm had

¹⁸ The E.U. IAS regulation permits member states to defer the applicability of the IAS regulation until financial years beginning on or after January 1, 2007 for a specified group of companies and permits member states to permit or require use of international accounting standards by entities other than those companies covered by the IAS regulation. Countries are or were consulting on whether to expand the option to apply the IAS regulation to permit or require use of international accounting standards endorsed by the European Union in the consolidated accounts for non-listed companies and/or in the separate financial statements of other companies. For example, Spain has decided to permit, but not require, expanded use for non-listed companies, but not to permit use of E.U. endorsed standards for annual (statutory) accounts of entities, and to defer the application of the regulation until 2007 for all entities except banking sector companies if those companies have only listed debt. See European Commission, Planned Implementation of IAS Regulation (1606/2002) in the European Union and European Economic Area, *available at* http://europa.eu.int/comm/internal_market/accounting/docs/ias/ias-use-of-options_en.pdf (last visited Mar. 27, 2005); EU IAS Regulation, *supra* note 9.

¹⁹ Between January 1, 2002 and December 31, 2003, the IASB proposed amendments to sixteen standards and published five proposed wholly new standards. Final versions were published in 2002 (one amendment); 2003 (one new standard, seventeen amendments); and 2004 (four new standards, with consequential amendments to other standards, and further

to determine when to deliver the training so that professionals in need of the training had the necessary skills at the time their clients began the process of conversion to IFRSs, but not so early that the training was out of date or the knowledge was “rusty” from lack of use when needed. The IFRS training also had to be coordinated with ongoing delivery of national GAAP training, as virtually all professionals had to maintain national GAAP knowledge in order to continue delivering national GAAP-based audit and advisory services at least through 2005 and, in most cases, thereafter.

Individual member firms began working on these training plans even before finalization of the E.U. IAS regulation in 2002. In 2003 a coordinating committee within KPMG that develops minimum compliance policies for audit practices asked each European member firm to formalize an IFRS training plan addressing a standard list of issues and to explain how it had reached its conclusion about the need for IFRS credentials, the number of people to be trained and the extent of training required. The coordinating committee recognized that formalized plans to address IFRS training were also needed for some countries that did not adopt IFRS directly if those national practices audited significant subsidiaries or other operations of entities that would be adopting IFRSs and the national practice performed work locally at the request of the lead KPMG audit firm. For example, the U.S. practice of KPMG developed an extensive IFRS training program for professionals who would be working on audits of U.S.-based operations of E.U. companies adopting IFRSs from 2005, even though IFRSs generally are not going to be used by U.S. companies. The request to develop national IFRS training plans was expanded the following year to other KPMG member firms outside of Europe.

Other training initiatives by KPMG member firms included:

- KPMG in Germany required all managers and partners working on IFRS-based audits, including referred-in work and audits of reporting packages, to complete a six-week IFRS training program. This course was delivered over a twelve-month period in a combination of self-study and classroom settings, including an examination at the end of each module.
- All European KPMG member firms trained a substantial portion of their concurring review partners so that these partners could be credentialed as IFRS reviewing partners. The conversion training included a week-long case-study-based classroom “conversion course” as well as ongoing annual training requirements.
- All KPMG member firms worldwide required that partners

amendments to two standards). See IASB website, at <http://www.iasb.org> (announcements of exposure drafts and final standards during this time period) (last visited Mar. 27, 2005).

designated as IFRS reviewing partners attend local or regional sessions of annual partner update training developed by the IFR Group.

To support these national and regional training initiatives, the IFR Group developed standard training materials including:

- A set of “basic” training materials with more than thirty modules on individual standards and topics, including detailed lecture guides, slide packs and case studies. These basic materials generally are tailored by national practices to focus on areas where IFRSs differ from national GAAP.
- A set of “advanced” training materials covering more complex application issues, particularly in the area of financial instruments and other specialty topics such as IFRS/U.S. GAAP differences.
- Periodic updates of training material distributed through national practices, providing training on newly published IASB standards, interpretations, and proposals.

These materials often need to be translated into local languages.

Regional groups and national practices also developed and delivered complementary training materials. For example, a European Training Center offered basic and advanced courses to KPMG member firm professionals using three five-day courses developed from the IFR Group material. That training center also developed two- and three-day IFRS/U.S. GAAP differences courses, basic and advanced courses on accounting for financial instruments under IFRSs, and specialized industry training in IFRSs.

Training is one of the key issues for making IFRSs, and convergence with national accounting standards, a reality. Every one of the Big Four networks has made a significant investment in training that is incremental to its existing local training requirements. Materials have been developed, translated and rolled out in a period when IFRSs were changing rapidly. In addition to the changes in many of the individual standards, the materials were updated for the application of IFRS 1 covering first-time adoption of IFRSs, published in June 2003.²⁰ Between 2003 and March 2004 the IASB published additional amendments to its financial instrument standards,

²⁰ Amendments to EMPLOYEE BENEFITS, International Accounting Standard 19 (International Accounting Standards Bd. 2002); Amendments to FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND IAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT, International Accounting Standard 32 (International Accounting Standards Bd. 2003).

issued four new standards and finalised at least one consequential amendment to twenty-four other standards.²¹ All of these revisions impacted the application of IFRSs within Europe and Australia for 2005. This pace of change and the need to translate materials into local languages presented a significant challenge in planning and delivering training in time to support audits of conversions to IFRSs.

One of the future challenges that firms will need to face is the potential for changes in national education and licensing regimes to adapt to IFRSs. For the near future the training burden will continue to fall principally on the firms and national professional institutes until university-level accounting programs incorporate significant amounts of IFRS content.

3. Avoiding divergence through different interpretation

Achieving true convergence with IFRSs requires more than merely modifying national standards to fit (often-times barely) within the principles of IFRSs. True convergence requires developing a shared and common understanding of IFRSs and ultimately a single view on every implementation question that arises.

In order to build a shared understanding of IFRSs, KPMG has developed a number of consultation networks. The purpose of these networks, generally ranging from fifteen to thirty people, is to bring in views from different parts of the world as part of the consultation process for developing answers to IFRS application issues. The primary consultation group is KPMG's IFRS Panel, a group comprised of senior technical partners drawn from thirteen national practices. The IFR Group also consults IFRS networks focused on specific topics such as financial instruments, business combinations and employee benefits, and on the financial, real estate and mutual fund industries. In addition to drawing on experience from different industries and countries, these networks provide a forum for discussing and identifying implementation issues. Experience has shown that the words of IFRSs can be read very differently, depending in part on national GAAP practices and other cultural issues that are brought into a reading of the IFRSs. Holding discussions with participants from different countries as part of the process for formulating guidance is time-consuming and expensive, as well as logistically difficult—"live" meetings involve people traveling from five continents and there is no single time frame convenient for all participants for a conference call. However, these consultations, while difficult, and demanding, have proved to be an invaluable part of building a shared understanding of IFRSs within the KPMG member firms.

²¹ For a list of all of these amendments see <http://www.iasb.org/standards/summaries.asp> (last visited Mar. 30, 2005).

Another mechanism for consistent interpretation of IFRSs is the IASB's interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). However, IFRIC's mandate is to support the IASB's principles-based approach to standards and avoid developing extensive and detailed application guidance. Even if it wished to do so, it does not have the capacity to address more than a limited number of issues each year.²² It also cannot resolve issues rapidly; typically it takes IFRIC over a year to develop and finalise an interpretation.

As a consequence, accounting firms must resolve many of the day-to-day implementation issues that arise. During the 2003-2004 time period, the IFR Group responded to more than one hundred times the number of specific application questions addressed by IFRIC. Additionally, national practices responded to numerous additional inquiries from their practice offices. Therefore, KPMG has to develop its own interpretive guidance on IFRSs to supplement that provided by IFRIC.

Interpretations are developed at both a national and international level. At a national level, engagement teams consult with the IFRS resources in their member firm (these resources generally are working within a national DPP). These national resources also consult with the IFR Group which draws on the networks described above, as well as its own resources, to respond to these questions. Conclusions reached by national DPPs and the IFR Group are captured in a shared database of queries that can be accessed by national DPPs and in electronic and hard-copy publications prepared by the IFR Group.

One evolving area is the interaction of individual KPMG member firms with national regulators in countries adopting IFRSs. As described above, the member firms in KPMG have worked to establish consultation mechanisms focused on developing consistent interpretations and application of IFRSs. While regulators are working to develop comparable consultation mechanisms, their processes have not been fully tested.²³ A

²² IFRIC meets six to ten times per year, generally for two days at a time. Typically it discusses about eight issues per meeting, with most issues requiring at least three meetings to develop an agreed approach. IFRIC's interpretations are then exposed for comment after consultation with the IASB. After comments are analysed and discussed, IFRIC finalises its conclusions and, subject to confirmation by the IASB, publishes a final conclusion. From January 1, 2003 through January 1, 2005, IFRIC published eleven proposed interpretations and five final interpretations.

²³ For example, see Guidance developed by the Committee of European Securities Regulators (CESR) on co-ordination of enforcement of financial information. CESR has established a European Enforcers Coordination Session intended to bring together CESR and non-CESR members with responsibility for enforcement of financial reporting and auditing in E.U. member states. CESR's objective is to "achieve a high level of coordination and convergence of their supervisory activities and to foster greater consistency of accounting treatment across Europe and the necessary level playing field." See Press Release,

“worst case” scenario for convergence is three or four national functional regulators in each country—e.g., securities regulators (like the SEC), banking regulators (like the U.S. Federal Reserve Bank), insurance regulators (like the U.S. state insurance regulators) and regulators of the auditing profession (like the Public Company Accounting Oversight Board), each developing and requiring different interpretations of IFRSs. This would be an unworkable situation, considering only the possible conflicts within the twenty-five E.U. member states.

4. Guidance material supporting IFRS-based engagements

All of the Big Four networks of accounting firms have developed implementation and interpretive guidance to supplement the IASB’s standards and formal interpretations. To pursue the objective of consistent interpretation and application of IFRSs throughout KPMG member firms, the IFR Group has published implementation guidance material both for internal use and for distribution outside of the member firms. These publications include:

- IFRS Illustrative Financial Statements (general, banks, insurance, investment funds, first-time adoption)
- IFRS Accounting and Disclosure checklists
- IFRS comparison books, comparing IFRS with U.S. GAAP and various national GAAPs
- IFRS guidance books (including one on Financial Instruments)

Other publications communicate IFRS developments, such as new IASB proposals and decisions, interpretive conclusions, and related regulatory developments. News alerts, including updates on interpretive positions, are published in both internal alerts and frequent newsletters for internal and external distribution. In order to facilitate more timely updating of materials, KPMG has included the IFRS guidance material described above in its electronic database, Accounting Research Online, which is available to professionals in KPMG member firms and on a subscription basis to clients and others.

The “GAAP Comparison” series grew out of the analyses performed by national practices as part of their training needs assessments. National practices were encouraged in early 2001 to do a comprehensive analysis comparing the IFRSs to their national GAAP. To facilitate this comparison the IFR Group developed a standardised overview of the requirements of IFRSs and asked national practices where IFRSs were expected to be used

extensively to compare their national GAAP to IFRSs using this standardised template. The process of developing these GAAP comparisons involved many hours of discussion at the international level. These discussions and comparisons also strengthened the acceptance within the KPMG network of firms of IFRSs as a separate body of standards with its own interpretations that should not be stretched to accommodate inconsistent existing national practices. Seeking to accommodate inconsistent national practices turns IFRSs into a reference framework rather than an independent body of standards for direct application.

The key IFRS comparison documents going forward are likely to be for U.S. GAAP, especially for those entities with a U.S. reporting requirement that use IFRSs as their primary basis of accounting, and for those countries where IFRSs are being permitted or are used in national standard setting, but are not required to be used directly, such as Russia, Japan and Canada. While some of the KPMG firms in E.U. member states plan to update their GAAP comparisons, their attention typically has shifted to developing and distributing IFRS interpretive guidance such as *Insights into IFRS*.²⁴

The material in guidance publications, including *Insights into IFRS*, goes beyond simply illustrating suggested approaches or identifying leading practices. Instead, the expectation is that KPMG member firm engagement teams will endorse the approach illustrated in every audit around the world. Therefore, it was very important that the positions taken reflect the consensus view of the member firms. In order to achieve this, IFR Group professionals reviewed and compiled the documentation relating to five years of queries on the application of IFRSs, identifying the points of principle and the conclusions taken, and evaluating what impact changes in standards may have had on those conclusions. Each of the forty-five chapters was reviewed by at least three KPMG IFRS Panel members and any unresolved differences discussed by the entire IFRS Panel. While this was a cumbersome process, it worked to build consensus about the views to be expressed on the application of IFRSs. The approximately 600 pages of guidance reflect an investment of over 5,000 hours by IFR Group professionals alone in addition to the time contributed by over 20 additional reviewers.

Another critical resource for use within KPMG member firms has been the development of a shared data base of application issues. Developing this resource was both a technological and a regulatory challenge. The technological challenge was to build a common platform that is compatible with the different databases used in each national practice so that data could

²⁴ KPMG IFRG LTD., *INSIGHTS INTO IFRS—KPMG'S PRACTICAL GUIDE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS* (2004) available at <http://www.kpmg.co.uk/pubs/beforepdf.cfm?PubID=949>.

be transferred without being recreated. In order to comply with data protection requirements all information that would have identified entities or individuals involved had to be removed. And, as ever, there was the question of translation of the information into different languages. Ultimately, it was concluded that the database would be maintained solely in English, requiring translation by national practices into their local language.

A business opportunity offered by the requirement for business entities to convert to IFRSs is advisory work supporting conversion projects. KPMG sought to draw on its experience with other conversion projects, including adoption of U.S. GAAP by entities seeking U.S. listings, and to capture experience and knowledge throughout its member firms as part of an advisory offering. A global IFRS conversion methodology and toolkit was developed in cooperation with the U.S.-based Accounting and Auditing Service Center and rolled out first in Europe and Australia and then to other countries within the KPMG network. This resource combines project management tools with IFRS technical resources to bring efficiencies to planning and executing conversion to IFRSs. For example, it includes a template to facilitate the comparison of an entity's current accounting policies based on national GAAP with IFRS requirements in order to identify which policies require change and what the data collection requirements are for both accounting policy and disclosure differences. This advisory offering requires ongoing support from IFRS technical resources at both global and national levels.

5. Risk management and quality control issues

Typical components of the risk management structure within a KPMG member firm include:

- Client acceptance
- Assignment of a team with appropriate industry and technical experience (see earlier discussion of training and credentialing in IFRSs)
- Involvement of a concurring review partner who reads key planning and conclusion documents as well as the financial statements
- Consultation with national technical offices on matters of interpretation
- A consultation process that permits review of advice from a national technical office

Each of these elements, as well as others, had to be reconsidered in the context of introduction of significant IFRS work into a national practice.

This reconsideration of existing risk management procedures had two facets: (a) what changes were necessary to address the addition of a second GAAP (IFRSs) as the basis of reporting for existing audit clients; and (b) what procedures should be applied to advisory engagements supporting entities—often non-audit clients—using KPMG member firms to support their conversion work. Some of the key additional client acceptance considerations relating to IFRS conversions include: how client personnel would obtain sufficient IFRS training, client resources committed to IFRS conversion projects, and the capacity and flexibility of an entity's reporting system to cope with a second (or third) body of GAAP. Other issues that were highlighted included independence concerns when clients were seeking assistance and support in IFRS conversion projects. Independence requirements relating to advisory work vary from country to country, and therefore guidelines had to be developed at a national level. It also was necessary to consider overlaying national independence requirements from other markets in which a client may be listed. For example, both French and SEC independence requirements have to be complied with for any French client with an SEC reporting obligation.

Another challenge was addressing whether additional audit and review procedures had to be applied in the year that an audit client converted its financial statements to an IFRS basis.

Involvement of a concurring review partner is a requirement throughout the KPMG member firms network regardless of the body of accounting or auditing standards involved. About five years ago all KPMG member firms agreed to a requirement for concurring review partners on IFRS-based engagements to be partners designated as IFRS reviewing partners if the audit client was either a public company or public interest entity, as well as on other engagements designated by the national practices. If an audit engagement had a concurring review partner who was not credentialed as an IFRS reviewing partner, then a partner with such credentials is to be added to the engagement team to support the concurring review partner.²⁵

Each national practice has designated professional practice resources who support engagement teams. Usually these partners work in a national DPP with responsibilities for responding to queries about interpretation and application of national GAAP and IFRSs, as well as monitoring the activities of a national standard setting body and regulators, developing and

²⁵ In order for a partner to be designated as an IFRS reviewing partner, he or she must be nominated by the national practice, have experience working with IFRSs and have satisfied ongoing training and experience requirements. These training requirements included participation in an annual IFRS partner update training course. The number of partners attending this course has increased significantly in the past two years and will continue to escalate as more and more engagements require participation by an IFRS reviewing partner.

delivering training, and communicating within a member firm about emerging issues.

As direct application of IFRSs has grown, and especially with the anticipated adoption in 2005 by over 7,000 E.U. companies and virtually all Australian entities, local IFRS knowledge has been developed in the practices most impacted. These practices have added IFRS knowledge within their national professional practices so that a national DPP is now the first “port of call” for an engagement team with an IFRS application question. When issues are precedent-setting, highlight possible inconsistencies within IFRSs, or involve disagreements with a non-KPMG firm of auditors (e.g., in a joint audit situation), then the national DPP consults with the IFR Group, which also may consult with a topic team network, the IFRS Panel, or both.

Each national practice has established a consultation process for cases when an engagement partner does not agree with the guidance received from a national DPP. The process varies within each country, but might include consideration of the issue by a panel of partners not involved in the engagement, review by the head of the national DPP, the head of the audit practice, the national partner in charge of risk management or the chairman of the national firm.

As discussed above,²⁶ a key goal for KPMG International has been to have member firms work together to avoid inconsistent interpretations of IFRSs. Consultation procedures have been developed that work across national firms to bring a wider range of views to bear in resolving each issue. Therefore, it was necessary to adapt consultation processes related to reviews of national DPP advice to ensure that issues were not resolved solely at a national level when national views might be inconsistent with guidance developed on an international basis. While the consultation process adopted by the member firms continues to be a function of the national risk management structure for that practice, it also includes the agreement of the IFRG Group, after consultation with the IFRS Panel, in order to maintain global input into conclusions about what is required under IFRSs.

6. Participation in national and international standard setting

One impetus for the establishment of a global IFRS group within KPMG came from suggestions from Michael Sharpe, the chairman of the International Accounting Standards Committee in the late 1990s. He noted that when the IASC published exposure drafts with requests for comment it received responses from several national firms within a global network of firms and that the individual responses often were inconsistent with the

²⁶ Part IV.B.3.

responses from other member firms of the same international network of firms. For example, two member firms of KPMG responded to a 1993 proposal on changes in foreign exchange rates, two Coopers & Lybrand practices responded to proposals published in 1996 on segment reporting, and two Ernst & Young member firms responded in 1997 to the discussion paper on financial instrument assets and liabilities. The IASC chairman encouraged each of the international networks of accounting firms to coordinate within their international networks to develop a single view for consideration by the IASC in its standard-setting process.

Since the establishment of its global IFRS resource in 1997, KPMG has provided a single agreed-upon response to IASB proposals. From time to time this may be supplemented by additional comments from a national practice wishing to relate the overall view to specific national business practices or existing national guidance. However, member firms have agreed that they will not offer individual views that are inconsistent with the KPMG response to the IASB or to national standard setters pursuing joint projects with the IASB.

In order to develop an agreed-upon KPMG response, the IFR Group first circulates a summary of the proposal to all professional staff within KPMG, requesting suggested comments by a specified date. Based on comments received and previous discussions of an IASB or IFRIC project with the IFRS Panel, the IFR Group drafts a proposed response for the consideration of the IFRS Panel. If there are conflicting suggestions for comments, then the IFR Group recommends one approach but also summarizes the different views proposed. After consideration and resolution by the IFRS Panel, the letter is submitted to the IASB by the IFR Group on behalf of KPMG International and its member firms. It also is provided to member firms who may wish to provide it to their national standard setters, particularly if those national standard setters also exposed the IASB's proposal either as a proposal for national GAAP or to solicit input to allow the national standard setter to provide input to the IASB on the proposals.

The comment letter process highlights many of the practical and sovereignty issues faced by autonomous member firms in a global organization. The first is timing: it is not unusual for the IASB to publish a document with a ninety-day comment period. While the IFR Group's summary and call for input often is released on the same day, it is only in English and many national practices may have to translate either the summary or the entire document for further consultation within that firm. If the IASB proposals also are published by a national standard setter, the national comment deadline tends to be a month earlier than that of the IASB. Therefore, since KPMG member firms are expected to be consistent in their comments at the national level with the international position, there is significant pressure to finalize the KPMG comment letter before the

national deadline. This is a tight timetable to coordinate, discuss, resolve differences in views and finalize the response.

From time to time, national member firm views diverge from the majority view within the KPMG network. For example, the IASB proposed modifications to IAS 19, *Employee Benefits*, to permit (but not require) immediate recognition of actuarial gains and losses directly in equity;²⁷ one objective of these amendments was convergence with the current U.K. standard, FRS 17, *Retirement Benefits*, which requires this immediate recognition in equity.²⁸ In light of the broad acceptance by financial statement users of FRS 17 disclosures, KPMG in the United Kingdom encouraged KPMG International to support the IASB's proposals as, in its view, companies reporting under U.K. GAAP would have to report what was considered to be less understandable information related to company pension plans once they adopted IFRSs. However, after discussion within KPMG's IFRS Panel, KPMG International's response discouraged the IASB from pursuing this project as it was viewed as prejudging the IASB's work on performance reporting.²⁹ This illustrates one of the trade-offs of building consensus and strengthening the impact of KPMG International's input into the international standard setting process—some valid national concerns may have to be subordinated.

Similar challenges are encountered when a national standard setter is issuing its own proposals with, or based on, an IASB document. For example, when the IASB published ED 2, *Share-based payment*, in November 2002,³⁰ the U.S. FASB published that document with a request for comment to its constituents. In particular, the U.S. FASB asked that respondents focus on whether or not it should undertake a project to revise its existing requirements in order to converge with the IASB proposal. KPMG LLP (US) was an active participant in the preparation of the KPMG response. It had extensive experience with accounting for share-based payments as the member firm in one of the few countries with any specific requirements for such transactions; it also had strong views about what worked—and what didn't—under then-current U.S. GAAP. KPMG in the

²⁷ See PROPOSED AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS-ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES (International Accounting Standards Bd., issued for comment 29 April 2004), summary available at http://www.iasb.org/uploaded_files/documents/8_63_ias19-sum.pdf (on file with author).

²⁸ FINANCIAL REPORTING STANDARD 17 ON RETIREMENT BENEFITS (United Kingdom Accounting Standards Bd., 2000), available at <http://www.asb.org.uk/asb/technical/pub0206.html>.

²⁹ See Comment Letter 82 from KPMG International to Anne McGeachin, Project Manager, International Accounting Standards Board (Aug. 3, 2004), available at http://www.iasb.org/docs/ed-ias19ag/IAS19_CL82.pdf.

³⁰ SHARE-BASED PAYMENTS, Exposure Draft (International Accounting Standards Bd. 2002), available at <http://www.iasb.org/docs/ed02/ed02.pdf> (last visited Mar. 6, 2005).

United States drew on those experiences as input into KPMG's response to the IASB.³¹

KPMG in the United States also expressed its concerns about how convergence efforts that were not fully coordinated strained participation in the national standard-setting process. On January 30, 2003, KPMG in the United States wrote to the U.S. FASB noting its support for the U.S. FASB to expose the IASB's document in order to focus the attention of the U.S. FASB's domestic audience on the issues that the IASB was addressing. While noting support for the IASB finalizing its project on a timely basis, KPMG in the United States expressed its concerns that

any attempt to achieve true convergence on this subject between the IASB and the FASB may not be possible in the allotted timeframe. Therefore, any current form of convergence on stock-based compensation would result from the FASB adopting the model in the IASB Exposure Draft rather than the two boards working together to develop a single high-quality solution to the accounting for stock-based compensation. We would object to a U.S. standard on stock-based compensation that adopts the IASB model solely to achieve convergence without the full due process of the FASB, including consideration by the FASB about the relative conceptual merits of Statement 123.

In the future, the two boards and, possibly other national boards, will need to work to develop a more synchronized approach to comment periods for exposure drafts on convergent standards. Many international organisations, such as international accounting firms, need to deliberate internally to decide on an international approach to a proposal, especially if it is to become the national accounting standard. For example, as the U.S. member of KPMG International, we are requested to comment on the FASB's Invitation to Comment before KPMG comments on the IASB Exposure Draft. We do not believe the lack of co-terminus deadlines for future convergence projects is in the interest of improved financial reporting.³²

7. National and Regional GAAPs based on IFRSs

Convergence will continue to be a goal that is desirable but challenging for all of the stakeholders in the financial reporting process. One area of potential tension comes about when countries adopt IFRSs as

³¹ See Comment Letter 91 from KPMG International to David Tweedie, Chairman, International Accounting Standards Board (Mar. 7, 2003) available at <http://www.iasb.org/docs/ed02/ed2-cl91.pdf>.

³² Letter from KPMG LLP (US) in Response to the FASB Invitation to Comment (Jan. 30, 2003), available at <http://www.fasb.org/>.

their national GAAP. In some countries this has been done with modifications made only to effective dates and transition provisions of IFRSs.³³ In other countries it has involved modification of the requirements of IFRSs. For example, Australia has eliminated some of the alternatives permitted under IFRSs³⁴ and Hong Kong modified the application of IFRS consolidation requirements when it issued local standards adopting IAS 27, *Consolidated and Separate Financial Statements*, in 2001 and 2004.³⁵ In these cases, the national standard setters must balance the desire for convergence and the ability to assert that their national GAAP is consistent with IFRSs with the pressures for national tailoring to accommodate established practices and views as well as national law and regulatory regimes.

As a global network of member firms that participates in the standard-setting process at both a national and international level, our ability, or the ability of a national member firm, to participate fully at a national level may be subject to a global consensus to support a different decision as the route for convergence. The tensions and understandable frustrations of member firms are amplified when an issue arises in a country without a direct participant in the IFR Group or IFRS Panel, as those countries may feel excluded from a decision-making process that will impact their participation in local standard setting. Similar tensions arise when a national practice is expected to apply a KPMG interpretation of IFRSs to its national GAAP because its national GAAP is claiming convergence with IFRSs. It may be particularly difficult for a local member firm to insist on a change from established national practice only because of a KPMG-specific interpretation of IFRSs. But this is what member firms are endeavoring to do at a local level when local GAAPs claim to be convergent with IFRSs.

At a regional level, the E.U. endorsement process has created differences from, and even the prospect of conflicts with, the requirements

³³ For example, when Sweden introduced requirements for lease accounting based on IAS 17, *Leases*, entities were not required to apply the new Swedish standard to existing agreements. Therefore, even though current Swedish GAAP regarding lease accounting is largely consistent with IFRSs, application of IFRSs may result in reclassification of some agreements and changes in accounting. See generally KPMG SWEDEN, IMPLEMENTING IAS: IAS COMPARED WITH SWEDISH GAAP, at 84, available at <http://www.kpmg.sk/index.thtml/en/library/publishedinternat/IFRS/> (2003) (last visited Mar. 31, 2005).

³⁴ For example, IFRSs permit use of either the equity method or proportionate consolidation when accounting for investments in joint ventures. AASB 131, the equivalent Australian standard to IAS 31, *Interests in Joint Ventures*, removes the alternative of using proportionate consolidation for investments in joint ventures and requires use of the equity method. INTERESTS IN JOINT VENTURES, Accounting Standard No. 131, para. 38 (Austral. Accounting Standards Bd. 2004) (stating "the Standard . . . requires a venturer in a jointly controlled entity to apply the equity method in recognizing its interests").

³⁵ See KPMG Hong Kong, First batch of HKASs: Revised Standards on Subsidiaries and Associates, at 2, available at <http://www.kpmg.com.hk> (July 2004).

of IFRSs as published by the IASB. For example, the E.C. has, after much debate, only endorsed IAS 39 for use after deleting some or all of seventeen paragraphs.³⁶ As a result, the option to designate most liabilities as measured at fair value through profit or loss will not be available to entities claiming compliance with E.U. endorsed standards and entities complying only with E.U. requirements will not need to comply with certain hedge accounting requirements in IAS 39. If an entity complies only with the E.U. requirements and not with all of IAS 39, then it cannot refer to compliance with IFRSs as its accounting framework. Further, the additional time requirements for the E.U. endorsement process raise the prospect that an entity may not, in future, be able to comply with both IFRSs and standards endorsed for use in the European Union because an amendment that changes the requirements of an IFRS is required to be adopted by an entity complying with IFRSs but the amendment may not yet have been endorsed by the E.C.

The time required for E.C. endorsement after a standard is issued by the IASB can create planning issues. For example, the IASB issued amendments to IAS 19 in December 2004; the amendments must be adopted by entities reporting under IFRSs for financial years beginning on or after January 1, 2006, but the IASB permits voluntary early adoption.³⁷ These amendments are expected to be endorsed by the European Commission before the end of 2005, and therefore to be available to calendar year-end companies reporting under standards endorsed for use in the European Union for their 2005 annual reports. If a company intends to comply with both IFRSs and the E.U. IAS regulation (endorsed standards) and also is reporting in interim periods on the basis it expects to use at year end, then what should it do in its 2005 interim report? Does it assume that the amendments will be endorsed by the end of the year and, therefore, that it should reflect its intended year-end policy (early adoption) in the interim financials? Or should it wait until the endorsement is complete? When should it start collecting data such as actuarial valuations to implement the amendments? The move to a new system that includes a regulatory overlay like the E.U. endorsement mechanism brings additional challenges for preparers, auditors and users; this is just one example.

³⁶ Press Release, European Commission, IAS 39 Financial Instruments: Recognition and Measurement – Frequently Asked Questions (FAQ) (Nov. 19, 2004), *available at* http://europa.eu.int/comm/internal_market/accounting/ias_en.htm#news (providing clarification of the European Commission's views regarding the impact of the adopted standard).

³⁷ Press Release, International Accounting Standards Bd., IASB Issues Amendments to Pension Cost Standard (Dec. 16, 2004), *available at* <http://www.iasb.org/news/iasb.asp?recordCount=3>.

V. CONCLUSION

“May you live in interesting times” often is viewed as both a blessing and a curse. Certainly as a global network of firms and as a profession we are living in interesting times. Real convergence with IFRSs requires coordinated action for an organization to function on a consistent basis. Global organizations that are subject to different and sometimes conflicting national regulations face tremendous challenges, not least, organizational and coordination ones. A national entity may face the challenge of setting aside its national biases when participating in international initiatives, but the mechanics of its participation may be simpler merely because it has centralized decision making and policy setting. A global network like KPMG with separate legal entities and national leadership, infrastructure and regulation faces tremendous challenges when trying to participate in the standard setting process with one voice. Fulfilling the traditional roles of a major accounting firm—participating in standard setting and developing guidance on the application of accounting standards—requires cumbersome consultative processes across a number of different structures and entities. But this consultation, while cumbersome at times, is also the foundation of success, because it builds acceptance and buy-in to decisions, and fosters a climate of consultation rather than reluctant acceptance of imposed conclusions. We are pleased that, as a global network, we moved early to develop mechanisms to create the means for this consultation.

Achieving true convergence of accounting standards—convergence of not just the words, but also on a shared understanding of the principles and objectives—is a costly and time-consuming objective. It asks organizations like KPMG to imagine the future and build new policies, links and committees to create an international infrastructure. It has required a huge investment of money, people, and leadership to support the transition to IFRSs, and will require a significant change in the training of accounting students in the near future. It is, however, the right objective and one that must be pursued vigorously, as it offers tremendous opportunities for all involved, but especially for users and preparers of financial statements.