

New accounting standards era seen to be ahead

More transparency, volatility to come

By ELIZABETH CHURCH

Accounting standards are entering a new "show-it-as-it-is" era that will bring more transparency – and more volatility – to corporate balance sheets, says Sir David Tweedie, head of the international body currently reshaping accounting rules.

"The smoothing, the pension corridors, things like that, they are going," Sir David, chairman of the International Accounting Standards Board, told the Economic Club of Toronto yesterday.

Emboldened by the support for reforms flowing from the recent wave of accounting scandals, international regulators are involved in an unprecedented effort to harmonize rules around the globe. Their aim is to produce a first set of standards by March of next year that will be adopted by the European Union countries in 2005. Australia and New Zealand also plan to use the new standard, which will be adopted to varying degrees by more than 90 countries, he said.

Canada will continue to maintain its own standards, but is working with the international board to align its major projects and harmonize its rules.

The international board's efforts are governed by a desire to develop the best possible treatment for accounting issues, regardless of political pressures, Sir David said. In doing so, regulators are applying a common theme: "It's show it as it is. Show the facts."

That means calling options an expense, changing the rules in areas such as leasing to better reflect actual liabilities and showing clearly when pension funds are running a deficit.

Eventually, the reforms could lead to an entire revamping of how financial information is presented.

Such frankness in financial statements, he warned, will not come without a fight.

The U.S. high-tech industry is waging war, for example, on efforts by U.S. federal regulators to expense stock options – a move the international regulator plans to adopt and an issue for which Sir David believes the tide has already turned in its favour. European politicians are also up in arms over proposed rule changes, and Sir David predicts there will be a "huge fight" next year when the international board introduces its proposed new rules for pension accounting.

On that issue, he said, the international body is likely to adopt standards such as those tried in Britain that require firms to record in their financial statements the real state of pension plans as they change from year to year. That will mean abandoning the now standard practice of smoothing gains and losses over several years and only recording those numbers when they exceed a specific measure known as a corridor.

Sir David acknowledged these changes and others will lead to greater volatility for corporate results, but he argues that this can be countered by increasing the amount of information given to investors in management's discussion and analysis.

Sir David said he and his fellow international standard setters are determined to develop rules that become "the gold standard" for national regulators worldwide, not ones that are convenient to the interests of individual industries or politicians in specific countries. "We are prepared to lead on certain issues."