that was done wrong and therefore it would need to be a sequenced, phased-in approach.

"We're in overload now, just with what's been happening in the past few years and trying to get it right—you have to have enough time to analyze and absorb it," Hein said.

Those in favor of a "big bang" implementation approach pointed to, among other reasons, a desire to avoid having a 'trickle in' effect such that every few years new accounting rules are issued, which may or may not be problematic.

Issuing the exposure draft in 2011 along with a date for implementation would be the favored way for the board to proceed, Albert Pastino, managing director at Kildare Capital, said. "Without target dates and deadlines, this could go on forever," Pastino said.

Pastino pointed out that the boards have been working toward convergence since 2002.

Managing Change. Golden told SBAC members the June 2011 time frame is causing a compression of completion for all of the projects, none of which have been exposed as yet for public review. "Over the next six months, the degree of user, preparer and auditor outreach will put the board in a position to begin redeliberations and reach the target dates," he said.

Two main factors propelling the 2011 timeline are: the IASB's commitments to other countries adopting IFRS that they will be in a position to complete these projects in 2011, and the substantial board turnover at the IASB in 2011 and even potentially at the FASB, Golden said.

"The reason that [deadline is] important for these other countries is because they do not want to have to change twice," Golden said. "You can imagine it's very costly to go from one accounting system to the other, and these countries would like a stable platform as they progress to the new accounting standard."

For both the FASB and the IASB the process will be time-consuming and painful, comprising volumes of information to be gathered and processed, according to Golden's presentation to the SBAC of what the boards require to move forward. Moreover, it will require a managed strategy to reach constituents already burdened with other regulatory guidance and issues, and compelling them to respond.

"The issue is one of change and change management," said FASB Chairman Robert Herz. "Whether it's change regarding individual projects or about the potential of the company and the country incorporating IFRS into U.S. public company reporting somewhere down the line, or the broader picture of whether or to what extent there ought to be different standards for private companies," Herz said.

He stated this is a period of a lot of change and uncertainty, which means that "the whole change management process" and the question of what the financial reporting system should look like in five or 10 years "is also critical."

The FASB is currently on track with five of the eight major projects and is coming to a converged solution. Three, however, are not on track in terms of convergence: insurance, leases, and financial instruments.

By Denise Lugo

Enforcement

SEC Boosting Scrutiny of FAS 5 Compliance, Auditors' Due Diligence for Chinese Clients

NEW YORK—The Securities and Exchange Commission is increasing its oversight of two accounting practices involving registrant disclosures and auditor due diligence, Wayne Carnall, chief accountant in the agency's Division of Corporation Finance, said April 28.

Financial Accounting Standard 5, Contingencies (Accounting Standards Codification Sections 450 and 805), establishes, in part, disclosure standards for accounting and reporting for loss contingencies. Carnall said the SEC is scrutinizing whether companies are fully complying with that standard by fully disclosing ranges of possible losses.

Second, the SEC is paying close attention to a "growing trend" of companies listing their principal places of business in China but using small U.S.-based accounting firms. Such arrangements raise questions about the ability of accountants to perform robust audits and conduct meaningful due diligence of their clients, Carnall said at a Practising Law Institute conference.

Range of Possible Losses Sought. FAS 5 requires disclosures regarding a charge to income for an estimated loss from a loss contingency. However, some companies are not fully disclosing the "range of possible losses" from relevant contingencies, Carnall said. Indeed, companies are currently providing "very little disclosure" regarding the range of possible losses, he told the gathering.

The SEC "looks forward to engaging in discussions on that point," Carnall said.

The Financial Accounting Standards Board in June 2008 issued an exposure draft that, in part, would expand required disclosures on certain loss contingencies. The board said April 14 that it would ssue a revised exposure draft in May (6 APPR 343, 4/16/10).

Auditor Due Diligence. Carnall also discussed a scenario under which companies list their principal place of business in the People's Republic of China but incorporate elsewhere—including the United States, the Cayman Islands, and other locations. These firms then hire accounting firms that often employ only a few professionals in the United States as their auditors, he said.

According to Carnall, the SEC has identified approximately 340 firms fitting that fact pattern, and is looking into how those accounting firms can adequately conduct audits and perform meaningful due diligence of the Chinese concerns. He also said the SEC has launched discussions with the Public Company Accounting Oversight Board about the topic.

By Stephen Joyce

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