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DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

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Seminar

Addressing Information Gaps in Business and Macro-Economic Accounts to Better Explain Economic Performance

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United Nations, Conference room C

Financial reporting of public companies in the US
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Financial Reporting of Public Companies in the U.S.

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Chairman

MFS Investment Management®

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Agenda

- Basic Reporting System
- Delivery of Information
- Application of Accounting Policies
- Current Substantive Issues
- Key Procedural Issues
- Convergence of GAAP-IFRC

Array of SEC Reports

- Annual 10Ks and quarterly 10Qs
- Proxy statements and glossy annuals
- Requirements for financial statements:
delegated by SEC to FASB
- Textual disclosures mandated by SEC

Public Company Perspective



- Financial reports
 - Certified by CEO and CFO
 - Reviewed and/or audited by external auditor
- Companies file reports with SEC
- Reports reviewed, but not approved, by SEC staff
- SEC can and does bring enforcement suits

Delivery of Reported Information



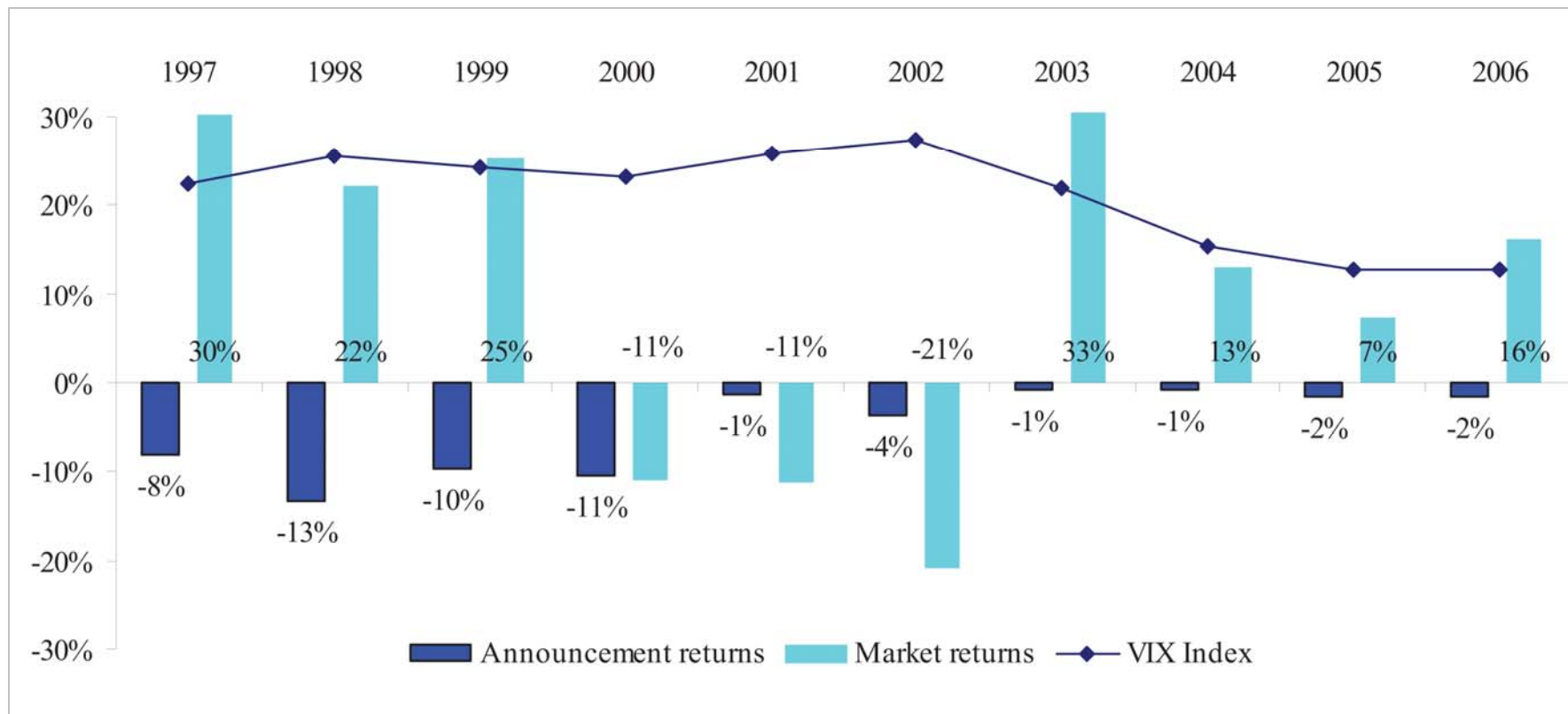
- XBRL: Gradual implementation
 - Furnished, not filed
 - No auditor assurance
- Executive summaries
- At front of 10Ks and 10Qs
- More use of corporate websites
 - Advantage of hyperlinks
 - Call for legal clarification

Key Performance Indicators (KPIs)

- Industry development of terms
 - Consistency
 - Comparability
- Increasing use in earnings release
- Voluntary disclosure in SEC reports
- Comparison to MD & A

Financial Restatements

Market Reaction to Restatement Announcements



Source: U.S. Treasury, "The Changing Nature and Consequences of Public Company Financial Restatements, 1997-2006," April 2008.

Correction vs. Restatement

- All errors, other than clearly insignificant errors, should be promptly corrected and disclosed in the current period
- In the “dark period” during the restatement process (e.g., 1-2 years), investors receive little information
- Therefore, prior period financial statements should be restated only if the error is material to current investors

Accounting Judgment

- Increased role of judgment
 - Fair value estimates
 - Principles vs. rules
- Policy statement, not “safe harbor”
- Disciplined consideration of factors
 - Material facts of transaction
 - Alternative accounting views
 - Review relevant literature
 - Known diversity of practice
 - Documented rationale for alternative chosen

Go Slow on Fair Value

- Financial instruments
 - Held to maturity
 - Available for sale
 - Actively traded
- Other types of assets and liabilities
- Fluctuations in value
 - Unrealized gains and losses
 - Capital implications

Division of Income Statement



- Cash flows
- Net operating income
- Sale of securities
- Unrealized income
 - Securities trading portfolio
 - Currency fluctuations
 - Unfunded pension liabilities

Bright Lines in Leasing

- Under current rules, a lease is recognized – all or nothing - depending on whether it meets the 90% test
- Alternative approach: Proportionate recognition
 - Lessee has right to use a machine for four years
 - Machine valued at \$100, has a 10-year useful life
 - Lessee would recognize \$35 on its balance sheet (NPV using that machine for 4 years)

Off-Balance Sheet Rules

- Easily avoid consolidation under current rules
 - Voting control test
 - Risk/reward test
- Proposal: Require independent holder of substantial equity to have governance role
- Disclosures by sponsor
 - Informal and formal obligations
 - Likelihood of future consolidation

Standard-Setting at FASB

- Central committee for agenda
 - Prioritize items
 - Drop projects
- Field testing and user pre-reviews
- Post-adoption review of standards
- Better design and clearer standards

Implementation Guidance



- Support clarification of GAAP
- Label non-authoritative guidance
- SEC takes lead in guidance
 - Specific to one registrant
- FASB (or SEC if necessary) issue broader guidance after notice and comment

Paths to Global Convergence

- SEC considering several paths
 - Target date for convergence
 - Option for U.S. companies
 - Option until target date
- Have to restructure the governance process
 - Role of oversight foundation
 - Role of national regulators
- Have to reconcile remaining accounting differences
 - Merger of FASB-IAB
 - Several years to complete

Interpretation of Global Standards

- Standards will use more principles and fewer rules
- IAB issues 2 or 3 interpretations each year
- Will national regulators be allowed to issue interpretations of global standards?
- Will U.S. GAAP continue to apply to private companies and non-profits?

Conclusions

- US reporting system is strong
- Procedural issues being resolved
- Historic costs vs. fair value
- Slow move to global convergence