

# Financial Adviser

## ACRONYM Overload – What Do They Mean and Will They Affect You and Your Business?

As the business world and global economy are caught off-balance and faced with unprecedented challenges, a new language is surfacing — business ACRONYMS. Briefly, we'll journey into this new genre by tackling a few acronyms and, hopefully, add some clarity to the recent news flashes.

### International Financial Reporting Standards (IFRS)

IFRS are the international accounting reporting standards that have been in the making for decades. What's new and what has the U.S. public companies spinning is the realization that U.S. GAAP (Generally Accepted Accounting Principles) is no longer recognized as the "gold standard."

During 2008, the Securities and Exchange Commission (SEC) proposed a "roadmap" toward global accounting standards that could lead to the use of IFRS by U.S. issuers beginning in 2014. This shift has driven financial oversight and regulatory bodies to establish a single set of robust, high quality, and internationally accepted standards. To date, more than 100 countries, including all of Europe, permit IFRS reporting, with approximately 85 of these countries actually requiring IFRS reporting for their listed companies.

Although this proposed SEC roadmap involves only publicly traded companies, there is a tremendous "trickle down" effect for smaller privately owned entities. As the U.S. Financial Accounting Standards Board (FASB) feverishly works with the International Accounting Standards Board (IASB) toward convergence of standards, GAAP will be changing to fall more in line with its international counterparts. These changes will affect all entities, not just

the public companies.

It's not all bad news; there is a silver lining. There will be tremendous opportunities for smaller progressive companies that are able to address and implement these standards into their financial reporting processes. These opportunities include expanding business in overseas markets, accessing international credit markets and being poised for potential international mergers and acquisitions.

### Volatility Index (VIX)

In 1993, the Chicago Board Options Exchange (CBOE) introduced the CBOE Volatility Index and it rapidly became the benchmark for stock market volatility. VIX measures market expectations of near term volatility utilizing S&P 500 index option prices and has been dubbed the "investor fear gauge."

Historically, analysts have associated values exceeding 30 with a large degree of volatility and less than 20 with less stressful and complacent market conditions. Recently, we have seen consistently high VIX values greatly exceeding those of normal market conditions. This is certainly not a stand-alone tool for attempting to time or hedge the market, but the VIX is an interesting index to watch and understand.

### Discriminant Function (DIF) Used by the IRS

Although not in the news, this is a very interesting acronym for taxpayers, since it is a mathematical technique used by the Internal Revenue Service (IRS) in scoring income tax returns as to examination potential. The DIF score is based on formulas using audit data collected by the National Research Projects (NRP) initiatives.

Computer-generated DIF scores are generated for returns filed based on taxpayer data compared to expected ranges. The higher the DIF score, the greater the potential is for audit.

Currently, individual taxpayers, corporations with less than \$10 million in assets, partnerships and trust returns are DIF scored. With resources limited at the IRS, this methodology will likely continue as one of the most cost effective means of targeting returns with a potential for additional tax revenues.

Although these business acronyms are unrelated, they directly relate to you and your business and hopefully this quick look behind the letters has been helpful. ☆

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