



# On the Horizon for IFRS

March 9, 2010

## **SEC Statement on global accounting standards**

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- Sufficient development and application of IFRS
- Independence of standard setter for the benefit of investors
- Investor understanding and education regarding IFRS
- Effect of change in standards on U.S. laws or regulations other than securities laws
- Impact of implementation for issuers
- Readiness of preparers and auditors

### **Role of the FASB**

## **SEC Statement on global accounting standards**

On February 24, 2010, the U.S. Securities and Exchange Commission (SEC or Commission) issued a Statement ([Release](#) Nos. 33-9109 and 34-61578) in which it reaffirmed its commitment to a single set of high-quality global accounting standards and the recognition that IFRS are best-suited to function as the single set of global standards for the U.S. market.

However, the SEC also identified several issues that still must be evaluated before the Commission can hand down a final decision on whether IFRS will be incorporated into the U.S. financial reporting system for U.S. issuers. Toward that end, the Commission directed its staff to develop a comprehensive plan to consider these issues before a final decision can be made. In response, the staff of the Office of the Chief Accountant, in consultation with other SEC staff, has developed a Work Plan that accompanies the Statement to address these issues.

The SEC believes that the completion of the Work Plan, along with the completion of the joint convergence projects by the IASB and FASB, will enable it to decide in 2011 whether to incorporate IFRS into the U.S. financial reporting system and, if so, how and when.

If the Commission decides in 2011 to incorporate IFRS into the U.S. financial reporting system, U.S. companies would be required to report under the system no earlier than 2015.

### **The road to IFRS**

The SEC has long signaled that U.S. and foreign regulators should pursue a single set of high-quality global accounting standards that would enhance the comparability of financial statements. For example, in 2000, the SEC issued a Concept Release seeking input on the elements necessary to move toward a global financial reporting framework. Then, the SEC issued the 2007 Concept Release on whether to allow U.S. issuers to prepare financial statements using IFRS. In that year, the SEC also approved a rule that allows foreign private issuers to make filings with the Commission using financial statements prepared in accordance with IFRS, as issued by the IASB, without reconciling to U.S. GAAP.

In the SEC's press release announcing the Statement, SEC Chairman, Mary L. Schapiro stated:

For nearly 30 years, the Commission has promoted a single set of high quality globally accepted accounting standards, which would advance the dual goals of improving financial reporting within the U.S. and reducing country-by-country disparities in financial reporting. But supporting this goal is only the beginning of the discussion, not the end.

The move to IFRS took another step forward in November 2008 with the release of the Commission's proposed Roadmap, in which the SEC reaffirmed its belief that IFRS might be the set of accounting standards that would best provide comparable financial information across increasingly global capital markets. The proposed Roadmap set a timetable for incorporating IFRS into the U.S. financial reporting system, provided certain milestones had been achieved. According to the proposed Roadmap, in 2011 the SEC would determine whether to proceed with rulemaking to mandate the use of IFRS by all domestic issuers if the milestones had been met.

The proposed Roadmap also included a proposed rule that would allow a limited number of U.S. issuers to use IFRS in filings with the SEC beginning with fiscal years ending on or after December 15, 2009. In the Statement, the Commission said it is withdrawing that proposed rule.

Gary Illiano, Grant Thornton LLP, National Partner-in-Charge of International and Domestic Accounting commented:

Although many of us were hoping the SEC would have set a definitive date for conversion to IFRS, we are happy that the Commission has both reaffirmed its commitment to IFRS as the single set of global standards and reconfirmed its decision will be forthcoming in 2011. This takes us a few more miles down the road to IFRS, but at a pace that prevents a major accident along the way.

### **Paving the road – the Work Plan**

The Work Plan, which has been approved by the SEC, will address many of the factors that those commenting on the proposed Roadmap encouraged the SEC to consider in its evaluation of whether and how to incorporate IFRS into the U.S. financial reporting system. Factors to be explored include the following:

- Sufficient development and application of IFRS
- Independence of standard setter for the benefit of investors
- Investor understanding and education regarding IFRS
- Effect of a change in accounting standards on U.S. laws or regulations other than securities laws
- Impact of implementation for issuers
- Readiness of preparers and auditors

The first two factors focus on the characteristics of IFRS and its standard setting. The last four focus on transitional considerations.

The SEC staff plans to use various methods to gather information in executing the Work Plan. For example, the SEC staff will conduct its own research and will seek comment from groups, such as investors, issuers, auditors, attorneys, other regulators, standard setters, and academics and will also hold discussions with them. The SEC staff also intends to research the experiences of other jurisdictions that have incorporated or committed to incorporate IFRS into their financial reporting systems and foreign private issuers who currently report under IFRS.

Beginning no later than October 2010, the SEC staff will provide frequent public progress reports on the Work Plan.

### **Sufficient development and application of IFRS**

In the Statement, the SEC said that global accounting standards must be high-quality. The SEC described “high-quality standards” in the 2000 Concept Release as consisting of a “comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions.” To determine whether IFRS are sufficiently developed and applied, the SEC staff believes the following areas need to be evaluated:

- The extent to which IFRS is comprehensive
- The auditability and enforceability of IFRS
- The extent to which financial statements prepared under IFRS are comparable within and across jurisdictions

### **Independence of standard setter for the benefit of investors**

The SEC said that another significant element for a set of standards to be high-quality is whether the governance system and funding of the standard setter support the independent development of accounting standards for the benefit of investors. To make that evaluation, the SEC staff plans to analyze the following four areas:

- Oversight of the IFRS Foundation
- Composition of both the IFRS Foundation and the IASB
- IFRS Foundation funding
- Standard-setting process of the IASB

### **Investor understanding and education regarding IFRS**

In the Statement, the SEC pointed out that the benefits of adopting a single set of high-quality globally accepted accounting standards would be realized only if investors understand and have confidence in the financial reporting system.

Therefore, the Commission believes it is necessary to assess investor understanding and education regarding IFRS. According to the Work Plan, the SEC staff will consider how familiar with IFRS investors are currently and how they stay abreast of changes in accounting standards. Then, the staff will be able to assess better the extent of effort that will be needed to educate investors on IFRS.

### **Effect of change in standards on U.S. laws or regulations other than securities laws**

In the Statement, the SEC noted that it is not uncommon for issuers to provide financial information to other parties, such as industry regulators. The Commission pointed out that it does not directly prescribe the information provided to these other parties. Therefore, to the extent that these other parties rely on U.S. GAAP as the basis for the financial information provided to them, a change to IFRS could have a significant effect on issuers, investors, industry regulators, and others.

The SEC staff plans to evaluate how incorporating IFRS into the financial reporting system for U.S. issuers will affect these parties. The section of the Work Plan on “Regulatory Environment” discusses the areas the staff plans to evaluate and analyze, including the following:

- How the SEC fulfills its mission
- Industry regulators
- Federal and state tax impacts
- Statutory dividend and stock repurchase restrictions

- Audit regulation and standard setting
- Broker-dealer and investment company reporting
- Public versus private companies

### **Impact of implementation for issuers**

Preparers of financial statements filed with the SEC will be significantly affected if IFRS is incorporated into the U.S. financial reporting system. A change from U.S. GAAP to IFRS would impact more than just the information in the financial statements of issuers. Therefore, the SEC staff plans to explore the extent of these changes and the processes needed to implement them. The areas the staff plans to explore include:

- Accounting systems, controls, and procedures
- Contractual arrangements
- Corporate governance
- Accounting for legal contingencies
- Small versus large issuers

### **Readiness of preparers and auditors**

If IFRS is incorporated in the U.S. financial reporting system, a number of parties, such as preparers, investors, auditors, and educators will need to become familiar with it. The section of the Work Plan on “Human Capital Readiness” discusses considerations related to education and training of all parties involved and auditor capacity, as well as how the staff plans to analyze them.

**Role of the FASB**

If IFRS is incorporated into the U.S. financial reporting system, will there be a role for the FASB going forward? The Commission noted that many other countries that have incorporated IFRS into their capital markets have maintained national standard setters. The SEC believes the role of the FASB will remain critical after adoption of a set of global accounting standards. To that end, the SEC staff will analyze the ongoing role of the FASB if IFRS is incorporated into the U.S. financial reporting system as part of its Work Plan.

The Financial Accounting Foundation (FAF) and the FASB stated in a news release dated February 26, 2010:

The FAF and FASB support the SEC's further consideration of the issues identified in the "Work Plan" in making its determination on whether and how to transition the current financial reporting system for U.S. issuers to a system incorporating International Financial Reporting Standards (IFRS). The FAF and the FASB stand ready to fully assist the SEC as it works toward a decision next year.