



# New Developments Summary

## SEC issues proposed Roadmap to IFRS

**Certain U.S. issuers may be permitted to use IFRS as issued by the IASB beginning with 2009 annual filings**

### Summary

On November 14, 2008, the SEC issued a release with its long-awaited [proposed Roadmap](#), which could lead to a requirement for U.S. issuers to use International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) as early as 2014. The proposed Roadmap, [approved for release in August 2008](#), includes a rule that would *permit* domestic issuers meeting certain criteria to use International Financial Reporting Standards as issued by the IASB (hereinafter referred to simply as “IFRS”) beginning with fiscal years ending on or after December 15, 2009. According to the Roadmap, the SEC would determine in 2011 whether to proceed with rulemaking to *mandate* the use of IFRS by all domestic issuers if certain milestones are met, including the following:

- Improvements in IFRS accounting standards
- Adequate accountability, independence and funding of the International Accounting Standards Committee (IASC) Foundation
- Availability of more detailed tagging for interactive reporting
- Advances in IFRS education and training

If the SEC proceeds to make IFRS mandatory, the proposed Roadmap outlines an option of phased-in adoption dates of 2014, 2015, and 2016, depending on the size of the issuer.

Grant Thornton LLP has consistently supported the SEC’s move to adopt IFRS as issued by the IASB. We believe that a global, high-quality set of accounting standards would increase financial statement comparability for investors while facilitating capital formation for U.S. companies from a greater pool of investors. For additional details on Grant Thornton LLP’s thinking in this area, refer to our [comment letter](#) on the Commission’s August 2007 [Concept Release](#) on allowing U.S. issuers to file using IFRS as issued by the IASB.

### Contents

A. Background.....	2
--------------------	---

B. Proposed Roadmap timetable .....	2
C. Milestones.....	3
Improvements in accounting standards .....	4
Accountability and funding of the IASC Foundation .....	4
Improvements in interactive data for IFRS reporting .....	4
Education and training .....	4
Limited early use of IFRS.....	5
Anticipated timing of future rulemaking by the Commission.....	5
Implementation of mandatory use of IFRS .....	5
D. Proposal for limited early use of IFRS.....	5
Proposed transition disclosures .....	6
E. Comment period .....	7

## A. Background

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. In the [proposed Roadmap, approved for release in August 2008](#), the SEC repeated its belief that International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) may be the set of accounting standards that would best provide comparable financial information across increasingly global capital markets. The Commission had previously published a [Concept Release](#) on allowing U.S. issuers to prepare financial statements using International Financial Reporting Standards as issued by the IASB (hereinafter referred to simply as “IFRS”), and approved a [Rule](#) in December 2007 that allows foreign private issuers to prepare financial statements using IFRS without reconciling to U.S. GAAP.

According to the Commission, IFRS has been increasingly accepted throughout the world, as over 110 countries currently require or permit the use of IFRS for domestic reporting. The SEC believes that, with the use of IFRS, U.S. issuers would be better able to compete for capital on a global basis and investors would be better able to compare U.S. and foreign companies. A key consideration to the SEC’s ultimate decision, though, will be whether IFRS is applied consistently across the numerous jurisdictions.

The SEC notes that the proposed Roadmap would not apply to investment companies under the Investment Company Act of 1940 or to other types of financial reports filed with or furnished to the SEC by regulated entities, such as registered broker-dealers.

In response to the release of the proposed Roadmap, Gary Illiano, Grant Thornton Partner-In-Charge of International and Domestic Accounting, stated, “We are pleased that the SEC has taken this important next step in the journey to making one set of high quality, globally accepted accounting standards a reality.”

## B. Proposed Roadmap timetable

The following chart summarizes the timing of significant benchmarks that the SEC outlines in its proposed Roadmap. The timing of certain events is discussed further in the sections that follow.

February 19, 2009	Fiscal years ending on or after December 15, 2009	Calendar year 2011	Fiscal years ending on or after December 15, 2014	Fiscal years ending on or after December 15, 2015	Fiscal years ending on or after December 15, 2016
Comment deadline for proposed Roadmap, which includes a proposed rule on early use of IFRS by certain U.S. issuers	Early adoption of IFRS for U.S. issuers meeting certain criteria	SEC to consider whether to mandate use of IFRS by U.S. issuers after evaluating progress in achieving certain Roadmap milestones	<p><i>Large accelerated filers</i></p> <p>mandated to adopt IFRS; assuming 12/31 FYE, annual report on Form 10-K to include audited IFRS financial statements for</p> <ul style="list-style-type: none"> <li>▪ 2014</li> <li>▪ 2013</li> <li>▪ 2012</li> </ul>	<p><i>Accelerated filers</i></p> <p>mandated to adopt IFRS; assuming 12/31 FYE, annual report on Form 10-K to include audited IFRS financial statements for</p> <ul style="list-style-type: none"> <li>▪ 2015</li> <li>▪ 2014</li> <li>▪ 2013</li> </ul>	<p><i>Non-accelerated filers</i></p> <p>mandated to adopt IFRS; assuming 12/31 FYE, annual report on Form 10-K to include audited IFRS financial statements for</p> <ul style="list-style-type: none"> <li>▪ 2016</li> <li>▪ 2015</li> <li>▪ 2014</li> </ul>

Considering the above timetable, U.S. issuers would need to prepare for IFRS accounting and reporting before the *earliest* fiscal year that would be included in the first filing for which the use of IFRS is mandatory. For example, the earliest fiscal year for an accelerated filer with a December 31 year end would be 2013.

The proposed timetable may result in the need for issuers to record transactions simultaneously under both U.S. GAAP and IFRS until after their first IFRS filing. Preparations for IFRS reporting typically include analyses of contracts, accounting systems and policies, and changes to staff training policies.

## C. Milestones

The proposed Roadmap includes milestones that, if achieved, could lead to the mandated use of IFRS by all U.S. issuers.

## Improvements in accounting standards

Since 2002, the Financial Accounting Standards Board (FASB) and the IASB have operated under a [memorandum of understanding](#) known as the Norwalk Agreement aimed at developing high-quality, compatible accounting standards for both domestic and cross-border financial reporting as soon as practicable. The FASB and IASB have recently [updated this memorandum](#), which outlines the next phase of the joint project through 2011. In determining whether to move forward on IFRS rulemaking the SEC would monitor the progress of both the convergence workplan and the development of IFRS standards, particularly those related to revenue recognition and financial statement presentation. The Commission would consider whether those standards are high quality and comprehensive and whether they have been established under a robust, independent process.

## Accountability and funding of the IASC Foundation

Under the proposed Roadmap, the SEC would monitor the International Accounting Standards Committee Foundation ([IASC Foundation](#)) to ensure that a secure, stable funding mechanism exists that allows the IASB to function independently. The IASC Foundation is a stand-alone, not-for-profit organization responsible for funding and overseeing the IASB's activities. The IASC Foundation receives funding commitments from accounting firms, companies, and central banks and governments, among others.

The IASC Foundation's [Trustees](#) have historically recognized that there should be no connection between the availability of funding and the outcome of the standards-setting process and have developed their funding policies in this regard. The Trustees, though, have proposed amendments to the IASC Foundation's constitution that would establish a Monitoring Group similar to the SEC's oversight role in the U.S. standard-setting hierarchy. The SEC stated in its proposed Roadmap that effective oversight would be critical before it proceeds to mandate that U.S. issuers prepare financial statements using IFRS.

## Improvements in interactive data for IFRS reporting

The SEC recently [proposed a rule](#) that, if adopted, would require all issuers to provide financial statements in interactive data format using eXtensible Business Reporting Language (XBRL). This rule would require foreign private issuers that prepare their financial statements using IFRS to begin providing financial statements in interactive data format beginning with fiscal periods ending on or after December 15, 2010. The proposed Roadmap states that before the Commission would approve a rule to make the use of IFRS mandatory, issuers must be able to report using an interactive data format in greater detail than what is currently available. As such, another consideration for the SEC would be the development of an IFRS list of tags for interactive data.

## Education and training

According to the proposed Roadmap, a number of parties will likely need comprehensive education on IFRS, including investors and personnel of issuers, auditors, audit committees, and even actuaries and valuation experts before rulemaking could proceed. Professional associations as well as universities would need to integrate IFRS into training materials and curricula. Before making IFRS mandatory for domestic issuers, the Commission would consider the state of the overall availability of IFRS training and education, as well as the training and readiness of parties involved with the preparation of financial statements.

We believe issuers that would meet the criteria in the proposed Roadmap for

early adoption of IFRS, as outlined below, should begin developing CPE policies that would require their accounting and financial reporting staff to attend IFRS training programs.

### Limited early use of IFRS

The proposed Roadmap includes a rule that would allow a limited number of U.S. issuers to use IFRS in filings beginning with fiscal years ending on or after December 15, 2009 (see related details in the section entitled "Proposal for limited early use of IFRS" below). The Commission believes that restricting early use to a relatively small number of companies will minimize the impact of a dual system of accounting in the U.S. However, if a dual system with significant noncomparability does develop, the SEC might be forced to accelerate the timeline or otherwise revise the Roadmap. In the release of the proposed Roadmap, the Commission notes two primary advantages to permitting the early use of IFRS by certain domestic issuers:

- It would broaden the awareness and attention given to IFRS as a single set of high quality globally accepted accounting standards.
- It would enhance the ability of capital market participants to evaluate and comment on a future proposed mandate that U.S. issuers adopt IFRS.

### Anticipated timing of future rulemaking by the Commission

After considering whether adequate progress has been made toward these milestones, the Commission would then determine whether or not to move forward with IFRS rulemaking in 2011. The SEC notes that it is already proceeding with the following actions to prepare for its decision:

- SEC staff has begun a comprehensive review of all SEC financial reporting rules in order to recommend amendments that would fully implement IFRS throughout the regulatory framework for registration and reporting under both the Securities Act and the Exchange Act.
- The Office of the Chief Accountant will undertake a study on the implications for investors and other market participants of implementing the use of IFRS by U.S. issuers and report its findings to the Commission. The SEC anticipates that the report will be made publicly available.

### Implementation of mandatory use of IFRS

The proposed Roadmap indicates that in proceeding along the Roadmap and as part of evaluating whether to mandate IFRS adoption by U.S. issuers, the SEC will need to consider the following:

- Whether voluntary early adoption of IFRS should be expanded to allow more U.S. issuers to transition before the SEC makes IFRS reporting mandatory
- Whether to address, as part of a rule making IFRS mandatory for U.S. issuers, the various sets of accounting principles, other than IFRS, currently accepted from foreign private issuers in their filings with the SEC and their requirement to reconcile to U.S. GAAP

---

## D. Proposal for limited early use of IFRS

The SEC's proposed Roadmap includes a proposed rule that would permit a U.S. issuer that meets the following two criteria to use IFRS beginning with fiscal years ending on or after December 15, 2009:

- The U.S. issuer is among the 20 largest companies globally in a particular industry based on market capitalization.
- The U.S. issuer's industry uses IFRS as the basis of financial reporting more than any other basis of financial reporting among the 20 largest listed companies worldwide.

U.S. issuers that would like to use IFRS in their filings would need to obtain a "no objection" letter from the SEC's Division of Corporation Finance staff. Obtaining a "no objection" letter, which would be made publicly available on the SEC website, would not commit U.S. issuers to use IFRS, however. If an eligible U.S. issuer chooses to transition to IFRS, the proposed amendments would require that the first filing using IFRS be an annual report on Form 10-K containing three years of audited financial statements.

We recommend qualifying U.S. issuers that wish to elect the use of IFRS for their annual reports for fiscal years ending on or after December 15, 2009 begin preparing their analyses of whether the criteria outlined in the proposed Roadmap would be met. We expect there to be a relatively short time period available for no-objection requests between the adoption of the proposed amendments and the due date of the first annual report in which U.S. issuers may elect IFRS.

In its release of the proposed Roadmap, the SEC includes a new definition in Regulation S-X for *IFRS issuer* as any issuer, other than a foreign private issuer filing financial statements pursuant to Item 17 or 18 of Form 20-F, that

- Prepares its financial statements in accordance with IFRS as issued by the IASB, pursuant to Rule 4-01(a)(3) and new Article 13 of Regulation S-X. The SEC is proposing to add a new Article 13 to Regulation S-X that relates to the use of IFRS and sets out requirements on the application of Regulation S-X and related rules and forms for any issuer that prepares financial statements in accordance with IFRS.
- Meets the eligibility criteria previously described
- Is not an investment company, an employee stock purchase savings and similar plan, or a smaller reporting company

### Proposed transition disclosures

In the proposed Roadmap, the SEC asks for feedback from all interested parties on two alternatives for transition disclosures required for issuers electing early IFRS reporting.

- *Proposal A* would require issuers to provide reconciling information from U.S. GAAP to IFRS in the footnotes to their audited financial statements in their first IFRS annual report in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Among other disclosures, IFRS 1 requires reconciliations of equity as previously reported to equity under IFRS at the transition date. In addition, companies transitioning to IFRS must include reconciliations of equity at the end of the latest period presented as well as their statements of operations and cash flows for the latest period in the most recent annual report under U.S. GAAP. Under Proposal A, there would be no ongoing reconciliation requirements after the initial year of adoption.

- *Proposal B* would not only require the required reconciliations under IFRS 1 for year-one adoption, but also unaudited supplemental U.S. GAAP financial information for each of the three years presented in the annual report in the form of a reconciliation from IFRS to U.S. GAAP. This information would be required on an ongoing annual basis for all included financial statements.
- 

## E. Comment period

The SEC asks all interested parties to comment on questions presented in its release of the proposed Roadmap by February 19, 2009.

---

© 2008 Grant Thornton LLP, U.S. member firm of Grant Thornton International Ltd. All rights reserved.

This Grant Thornton LLP bulletin provides information and comments on current accounting issues and developments. It is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or other advice or guidance with respect to the matters addressed in the bulletin. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this bulletin.

For additional information on topics covered in this bulletin, contact your Grant Thornton LLP adviser.