

Heads Up

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The Road to IFRSs Is Under Construction

SEC Publishes Work Plan for Moving Forward With IFRSs for U.S. Issuers

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Today's Commission statement reaffirms our support for a single globally-accepted standard, describes the issues that need to be further examined and analyzed, and lays out the events that must occur between now and 2011. . . . To this end, we have asked the staff to develop and execute a work plan. . . . In 2011, upon conclusion of the fact-gathering and analysis set forth in the work plan — and assuming completion of the convergence projects — the Commission will then be in a position to determine whether to incorporate IFRS into the financial reporting system for U.S. public companies.

— SEC Chairman Mary Schapiro

Introduction

On February 24, 2010, in an open meeting, the SEC voted unanimously to issue a statement¹ expressing its strong commitment to the development of a single set of high-quality globally accepted accounting standards ([Release Nos. 33-9109; 34-61578](#)). As the activities of investors, companies, and markets become increasingly global, use of a single set of high-quality global standards will facilitate cross-border capital formation and help provide investors with the comparable financial information they need to make informed decisions about investment opportunities around the world. The Commission affirmed that International Financial Reporting Standards (IFRSs) are best positioned to be that set of standards for the U.S. market. It also outlined the next steps in its determination of whether incorporation of IFRSs into the financial reporting system for U.S. issuers is in the best interests of U.S. investors and markets.

The statement emphasizes the importance of the FASB's and IASB's convergence efforts and of the completion of such efforts in accordance with the Boards' current time table (i.e., by 2011).² This objective is consistent with SEC Chairman Mary Schapiro's remarks that the FASB's and IASB's current convergence projects "must first be successfully completed" before a final ruling can be made on the use of IFRSs by U.S. issuers.

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Join us for a 90-minute webcast on March 9 at 2 p.m. (EST) in which we will discuss the SEC's statement and Work Plan, a possible timeline for IFRS adoption, the importance of convergence, and what this means for you.

¹ "Commission Statement in Support of Convergence and Global Accounting Standards."

² See "FASB and IASB Reaffirm Commitment to Memorandum of Understanding — A Joint Statement of the FASB and IASB" (November 5, 2009).

The statement is a step forward in the movement toward the use of one single set of high-quality globally accepted accounting standards in all major markets around the world.

In addition to its emphasis on convergence, the statement recognizes that there are many structural, operational, and transitional issues that would result from such a significant change to the current financial reporting environment. The statement therefore directs the SEC staff to execute a “Work Plan”³ addressing specific areas of concern that have been highlighted in comment letters to the SEC. The purpose of the Work Plan is to provide the Commission with the information it needs to make a well-informed decision regarding the use of IFRSs by U.S. issuers.

After the Work Plan is executed and the FASB’s and IASB’s current convergence projects are completed, the Commission will determine whether to incorporate IFRSs into the U.S. financial reporting system. The statement indicates that this determination will be in 2011, in line with the timeline in the SEC’s 2008 proposed roadmap⁴ for IFRSs adoption (see discussion below). The statement notes that if in 2011 the SEC votes to incorporate IFRSs into the financial reporting system for U.S. issuers, sufficient transition time would be allowed, with U.S. issuers reporting under such a system no earlier than 2015.

While the SEC did not provide a definitive date for the U.S. adoption of IFRSs (as some had hoped), the statement is a step forward in the movement toward the use of one single set of high-quality globally accepted accounting standards in all major markets around the world, a goal endorsed by the leaders of the Group of Twenty nations (“G-20”).⁵ Although the SEC still has much groundwork to do to accomplish this goal, the statement and the staff’s Work Plan demonstrate a level of commitment to moving forward with IFRSs for U.S. issuers.

This *Heads Up* provides:

- A brief background of the SEC’s 2008 proposed roadmap for IFRSs adoption and the comment letters received on the proposal.
- A description of the components of the SEC’s Work Plan for considering the incorporation of IFRSs in the U.S. financial reporting system.
- A discussion of expected next steps once the SEC has completed its Work Plan.
- An Appendix with a tabular summary of the Work Plan.

Proposed Roadmap and Comment Letters Received

The last time the Commission formally met to discuss the use of IFRSs by U.S. issuers was in November 2008 when it issued a proposed [roadmap](#) on the use of IFRSs by U.S. issuers. As discussed in Deloitte’s [November 17, 2008, Heads Up](#), the roadmap outlined several milestones that, if achieved, could lead to the mandatory transition to IFRSs starting in 2014. The roadmap also contained proposed rule changes that would give certain U.S. issuers the early option to use IFRSs in financial statements for fiscal years ending on or after December 15, 2009. The issuance of the roadmap generated a significant amount of interest and resulted in over 200 comment letters from a broad range of interested parties, including investors, issuers, regulators, standard setters, academia, and representatives from accounting, legal, and other professions.

The SEC thoroughly analyzed the comments received and has used the information from the insights provided to develop the Work Plan going forward. It found that respondents were generally supportive of the goal of having a single set of high-quality globally accepted accounting standards; however, there were differing views about the best approach forward for IFRSs in the U.S. (e.g., convergence vs. wholesale adoption). Other structural, transitional, and operational issues were also noted, such as the maturity and completeness of IFRSs, the independence of the global standard-setting process, the time frame needed for constituents to adequately prepare, and costs of a transition.

³ “Work Plan for the Consideration of Incorporating International Financial Reporting Standards Into the Financial Reporting System for U.S. Issuers.”

⁴ “Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers.”

⁵ See, for example, the [Leaders’ Statement](#) from the Pittsburgh Summit (September 24–25, 2009).

The statement and Work Plan do not contain any specific adoption dates or transition methods.

SEC Staff's Work Plan

The Work Plan sets out a detailed set of due diligence activities that the SEC staff will perform to provide the Commission with the information it needs to make a determination of whether, when, and how to incorporate IFRSs into the U.S. financial reporting system. To this end, the Work Plan addresses the following six areas of concern that were highlighted in comments on the SEC's proposed roadmap:

1. Sufficient development and application of IFRSs for the U.S. domestic reporting system.
2. The independence of standard setting for the benefit of investors.
3. Investor understanding and education regarding IFRSs.
4. Examination of the U.S. regulatory environment that would be affected by a change in accounting standards.
5. The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies.
6. Human capital readiness.

The first two issues focus on information that is relevant to the SEC's determination of **whether** to incorporate IFRSs into the U.S. financial reporting system; the last four focus on the **when and how** (timing and scope) of potential adoption. The Work Plan is subject to further adjustments for new information or developments, and the SEC staff will provide public progress reports beginning no later than October 2010, and frequently thereafter, until the Work Plan is completed.

For each area of concern, the Work Plan lays out considerations for review and specific action items that the SEC staff will perform. The considerations for each area of concern are discussed in further detail below. See the [Appendix](#) for a detailed list of the specific action steps.

Editor's Note: The statement and Work Plan do not contain any specific adoption dates or transition methods (e.g., wholesale conversion, a standard-by-standard phase-in, continued convergence). Further, the early adoption option presented in the proposed roadmap for periods beginning on or after December 15, 2009, was removed; however, the statement leaves open the possibility for an early adoption option upon a final decision in 2011. Decisions on these issues will be made in the context of the information received as part of executing the Work Plan.

Concerns About *Whether* to Incorporate IFRSs Into the U.S. Financial Reporting System

Sufficient Development and Application of IFRSs

Before the Commission decides whether to incorporate IFRSs into the U.S. financial reporting system, it will first determine whether IFRSs are sufficiently developed and applied. To help make this determination, the SEC staff will analyze whether IFRSs are comprehensive, auditable, and enforceable, and allow comparability within and across jurisdictions. One of the concerns that will be assessed is that IFRSs are not as developed and have not reflected economic events for as long a period as U.S. GAAP. For instance, the Work Plan notes that IFRSs lack broad guidance on certain topical areas, such as accounting for certain common control and recapitalization transactions, and on accounting related to certain industries, such as utilities, insurance, extractive industries, and investment companies. Another concern is that less detailed and prescriptive guidance in IFRSs may create challenges for auditors and regulators. Because IFRSs may be seen as more flexible than U.S. GAAP, divergence in application may also result, which could reduce comparability of financial information.

Editor’s Note: The Commission stated that the convergence projects of the FASB and IASB are critical to future rulemaking on IFRSs, in part to address the comprehensiveness concern. However, note that convergence does not necessarily mean identical standards. Rather, it is an effort to address major technical matters and bring the standards closer together. The differences between U.S. GAAP and IFRSs at the completion of the convergence efforts will be minimized, but convergence will not result in a conversion to IFRSs by U.S. issuers in and of itself.

Recent events have demonstrated that significant pressure can be exerted on a standard-setting body as a result of market turmoil.

Independence of Standard Setting

The SEC will also evaluate whether the IASB is sufficiently independent for the benefit of investors. Recent events have demonstrated that significant pressure can be exerted on a standard-setting body as a result of market turmoil. The staff will analyze whether the IASB’s funding and governance structure supports an independent standard-setting process. Of particular concern is whether the IASB can develop high-quality accounting standards that benefit investors while demonstrating independence from commercial and political pressures and at the same time maintaining accountability to investors through appropriate due process.

As part of the Work Plan, the SEC staff will consider the oversight of the IFRS Foundation,⁶ the composition of the IFRS Foundation and the IASB, the funding of the IFRS Foundation, and the IASB standard-setting process. In considering these issues, the staff will need to examine whether the IFRS Foundation can secure a stable funding mechanism that supports the independent functioning of the IASB. Among other things, the SEC staff will explore possible funding mechanisms for U.S. contributions to the IFRS Foundation. In addition, the SEC staff will need to analyze the degree of investor involvement, timeliness, and objectivity of the IASB’s standard-setting process.

Concerns About *When* and *How* to Incorporate IFRSs Into the U.S. Financial Reporting System

Investor Understanding and Education

The benefits of a global set of high-quality accounting standards will only be realized if investors have a thorough understanding of those standards. Because of the differences between U.S. GAAP and IFRSs in a number of areas, the SEC staff will consider investors’ current understanding and familiarity with IFRSs and how they will be further educated. The extent to which investors will need further education will affect the scope and timing of transition to IFRSs.

Impact on Regulatory Environment

The impact that adoption would have on the regulatory environment may also affect the scope, method, and timing of adoption of IFRSs. The SEC staff will consider the impact not only on the manner in which the SEC fulfills its mission but also on other areas of the regulatory environment such as regulatory filings with industry regulators, tax issues (e.g., use of the last-in-first-out (LIFO) method of accounting for inventory), statutory dividend and stock repurchase restrictions linked to financial reporting, the need to align audit regulation and audit standard setting with IFRSs, and potential exemptions for broker-dealer and investment company reporting. The SEC staff will also examine the effect on adoption of IFRSs for private companies.

The Commission also addressed the question about the future role of the FASB and expressed strong support for the FASB’s continuing substantive role in the global standard-setting activities. Chief Accountant Jim Kroeker noted that a number of national accounting standard setters around the world have remained in operation following the adoption of IFRSs in those jurisdictions and stated that the activities in the Work Plan will include obtaining an understanding of these roles.

⁶ The IFRS Foundation oversees the IASB and other activities related to IFRS. In addition, the IFRS Foundation is accountable to a Monitoring Board, which is composed of regulators (including the SEC) and other governmental authorities charged with the adoption or recognition of accounting standards in their respective jurisdictions.

The Commission believes that it will have the necessary information to determine whether to incorporate the use of IFRSs into the U.S. financial reporting system once the Work Plan and the convergence projects of the FASB and IASB have been successfully completed.

Impact on Issuers

The scope and timing of potential adoption of IFRSs in the U.S. could also be affected by the cost, effort, and time needed by issuers to move to IFRSs. Under the Work Plan, the SEC will assess the magnitude and logistics of the changes that issuers would need to undertake with respect to accounting systems, controls, and procedures; contractual arrangements; and corporate governance. The SEC will also assess legal issues associated with the lower threshold for recognition of litigation-related loss contingencies under IFRSs. In addition, it will evaluate the impact that a move to IFRSs would have on smaller issuers, for which the costs of transition could be more burdensome.

Editor's Note: Companies will also have to consider such issues as adequate accounting systems, controls, and procedures; contractual arrangements; and corporate governance in the context of the upcoming changes to guidance under U.S. GAAP through the major convergence projects. Projects such as leasing, revenue recognition, financial instruments, and financial statement presentation may significantly change a company's current accounting and reporting in these areas.

Human-Capital Readiness

Because the transition to IFRSs would not only affect investors, issuers, and regulators, the SEC staff will explore readiness considerations related to education and training for issuers (e.g., audit committees, investor relations departments), specialists, attorneys, external auditors, regulators (e.g., SEC staff, PCAOB staff), state licensing bodies, professional associations, industry groups, and educators. The SEC staff will also explore the impact of adoption of IFRSs on the availability of external audit services and audit quality.

The Next Steps Regarding IFRSs

The Commission is not seeking comment on the statement or Work Plan. However, the staff's actions and progress on the Work Plan will be transparent as it will provide frequent public progress reports beginning no later than October 2010 and continuing thereafter through completion.

The Commission believes that it will have the necessary information to determine whether to incorporate the use of IFRSs into the U.S. financial reporting system once the Work Plan and the convergence projects of the FASB and IASB have been successfully completed. It is estimated that this determination will occur in 2011, based on the current projected timing of the completion of the FASB's and IASB's convergence efforts by June 2011, with adoption of IFRSs by U.S. issuers no earlier than 2015, which allows approximately four to five years for transition.

If in 2011 the Commission votes to incorporate IFRSs into the U.S. financial reporting system for U.S. issuers, it will do so through the official rulemaking process for a proposed rule. The proposed rule will be open for comment and the SEC will consider the comments before finalization of the rule.

Editor's Note: The roadmap did not provide any relief from the SEC's current reporting requirements related to presentation of three years of comparative information. If this previous thinking is maintained by the Commission, U.S. issuers may have to present IFRS information in their 2013 financial statements.

Watch for additional Deloitte communications as the SEC provides progress reports on the Work Plan and as the FASB and IASB continue their efforts on convergence projects.

Appendix

The table below outlines the specific areas of concern, considerations, and action steps described in the Work Plan.

Concern	Work Plan Considerations	Staff Actions
Sufficient development and application of IFRSs for the U.S. domestic reporting system	The comprehensiveness of IFRSs	<ul style="list-style-type: none"> • Analyze the extent to which IFRSs are comprehensive. Specifically, the staff will: <ul style="list-style-type: none"> ○ Inventory areas in which IFRSs do not provide guidance or in which they provide less guidance than U.S. GAAP. ○ Analyze how issuers, auditors, and investors currently manage these situations in practice. ○ Identify areas in which issuers, auditors, and investors would most benefit from additional IFRS guidance.
	The auditability and enforceability of IFRSs	<ul style="list-style-type: none"> • Gather data on the auditability and enforceability of financial statements prepared under IFRSs. Specifically, the staff will: <ul style="list-style-type: none"> ○ Analyze factors that may influence the auditability of financial statements prepared under, and the enforceability of, IFRSs. ○ Evaluate factors that may influence the consistent audit of financial statements prepared under, and the enforcement of, IFRSs. ○ Identify potential changes to improve the auditability and enforceability of financial statements prepared under IFRSs and to facilitate their consistent audit and enforcement.
	The comparability of IFRS financial statements within and across jurisdictions	<ul style="list-style-type: none"> • Analyze the extent to which financial statements prepared under IFRSs are comparable within and across jurisdictions. Specifically, the staff will: <ul style="list-style-type: none"> ○ Analyze factors that may influence the degree of comparability of financial statements prepared under IFRSs on a global basis. ○ Assess the extent to which financial statements prepared under IFRSs may not be comparable in practice and how investors manage these situations. ○ Identify ways to improve the comparability of financial statements prepared under IFRSs on a cross-border basis to provide the most benefit for investors.
Independence of the global standard-setting process for the benefit of investors	Oversight of the IFRS Foundation	Analyze the extent to which the Monitoring Board is functioning as designed, including an analysis of the operations of the Monitoring Board and an assessment of any areas for improvement.
	Composition of the IFRS Foundation and the IASB	<ul style="list-style-type: none"> • Analyze the extent to which the composition of the IFRS Foundation and the IASB promotes the independent development of accounting standards for the ultimate benefit of investors, including an analysis of the changes to the composition of the IFRS Foundation and the IASB and their effect on the IASB's ability to independently develop accounting standards for the ultimate benefit of investors.
	Funding of the IFRS Foundation	<ul style="list-style-type: none"> • Analyze (1) the extent to which the IFRS Foundation's sources of funding promote the independence of the IASB and (2) possible funding mechanisms to provide the U.S.-based contribution to the IFRS Foundation. Specifically, the staff will: <ul style="list-style-type: none"> ○ Evaluate whether the Trustees' four characteristics governing the establishment of a funding approach are appropriate. ○ Monitor the IFRS Foundation's funding arrangements to determine whether voluntary funding from an individual organization continues to be reduced and a stable, independent funding platform is secured. ○ Explore alternatives for funding mechanisms in the United States.
	IASB standard-setting process	<ul style="list-style-type: none"> • Explore the extent to which the IASB promotes the preeminence of investor views (e.g., through review of the IASB's practices). • Analyze the extent to which the IASB balances timely resolution of emerging issues and due process, including the IASB's ability to resolve emerging issues in a timely and effective manner without compromising due process. • Assess the extent to which the IASB's standard-setting process is independent and objective, including a review of the IASB's practices to assess the adequacy of the IASB's independence and objectivity during recent standard-setting efforts.
Investor understanding and education regarding IFRSs	Investors' current familiarity with IFRSs and educational efforts necessary to effectively incorporate IFRSs into the financial reporting system for U.S. issuers	<ul style="list-style-type: none"> • Analyze how to promote investor understanding of IFRSs as well as the existing mechanisms to educate investors about changes in accounting standards. Specifically, the staff will: <ul style="list-style-type: none"> ○ Conduct research aimed at understanding U.S. investors' current knowledge of IFRSs and preparedness for incorporating IFRSs into the financial reporting system for U.S. issuers. ○ Gather input from various investor groups to understand how investors educate themselves on changes in accounting standards and the timeliness of such education. ○ Consider the extent of, logistics for, and estimated time necessary to undertake changes to improve investor understanding of IFRSs and the related education process to ensure investors have a sufficient understanding of IFRSs before potential incorporation.

Concern	Work Plan Considerations	Staff Actions
Impact on the regulatory environment	Manner in which the SEC fulfills its mission	<ul style="list-style-type: none"> • Analyze the impact on Commission rules and procedures and potential approaches for the ongoing role of the FASB in accounting standard setting and interpretation. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Analyze references to accounting standards and requirements in existing Commission rules and interpretations and staff application guidance to identify the extent of, logistics for, and estimated time necessary to implement any changes before incorporation of IFRSs. ◦ Consider how, if at all, incorporation of IFRSs would affect (1) the nature, manner, or frequency in which the Commission and its staff provide interpretive accounting guidance and enforce accounting standards and (2) the extent of, logistics for, and estimated time necessary to implement any changes. ◦ Analyze approaches to the FASB’s ongoing role in accounting standards used in the U.S. and the extent of, logistics for, and estimated time necessary to undertake these approaches.
	Industry regulators	<ul style="list-style-type: none"> • Analyze the effects on issuer compliance with industry regulatory requirements. • Consider the impact of a change in SEC reporting on industry regulators. • Analyze constituent concerns associated with any potential changes, or lack thereof, to regulatory regimes.
	Federal and state tax impacts	<ul style="list-style-type: none"> • Analyze the effects on federal and state tax regulations, as well as issuers subject to such regulations. • Consider the impact of a change in SEC reporting on federal and state tax regulators. • Analyze constituent concerns associated with any potential changes, or lack thereof, to federal and state tax regulation.
	Statutory dividend and stock repurchase restrictions	<ul style="list-style-type: none"> • Analyze the effect of incorporation of IFRSs on legal standards, such as a company’s ability to pay dividends or repurchase stock, on issuers and investors. • Consider the impact of a change in SEC reporting on state statutes in this regard. • Analyze constituent concerns associated with any potential changes, or a lack thereof, to such state statutes.
	Audit regulation and standard setting	<ul style="list-style-type: none"> • Analyze the effects on audit standard setting and auditor requirements. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Consider the impact of incorporation of IFRSs on PCAOB standards. ◦ Consider the extent of, logistics for, and estimated time necessary to undertake any changes to auditing standards.
	Broker-dealer and investment company reporting	<ul style="list-style-type: none"> • Analyze possible approaches for financial reporting requirements for broker-dealers and investment companies. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Assess (1) the effects of incorporation of IFRSs on broker-dealers, investment companies, and investors, including whether IFRSs include sufficient standards and (2) the extent of, logistics for, and estimated time necessary to undertake any changes, should broker-dealers and investment companies be included in the scope of any potential Commission decision. ◦ Evaluate the effect on investors of excluding broker-dealers and investment companies from the scope of any potential Commission decision.
	Public versus private companies	<ul style="list-style-type: none"> • Analyze the effects of incorporation of IFRSs for U.S. issuers on private companies, auditors, and investors. • Assess the extent of, logistics for, and estimated time necessary to undertake changes to accommodate any resulting implications on private companies.
Impact on issuers	Accounting systems, controls and procedures	<ul style="list-style-type: none"> • Analyze the effects on U.S. issuers’ accounting systems, controls, and procedures. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Determine the extent of, logistics for, and estimated time necessary to undertake changes to issuer accounting systems, controls, and procedures to facilitate incorporation of IFRSs. ◦ Consider the implications of a “stable platform,” including the length of time and means of addressing emerging issues.
	Contractual arrangements	<ul style="list-style-type: none"> • Analyze the effects on contractual arrangements. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Assess the types and pervasiveness of contractual arrangements that would be affected by incorporation of IFRSs and the manner in which they would be affected. ◦ Determine the costs, ability, plans, and estimated time required to address concerns regarding affected contractual arrangements.
	Corporate governance	<ul style="list-style-type: none"> • Analyze the impact on compliance with corporate governance standards. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Determine the potential effects on corporate governance and related concerns of incorporation of IFRSs. ◦ Determine possible approaches to address corporate governance concerns and the extent of, logistics for, and estimated time necessary to undertake these approaches.

Concern	Work Plan Considerations	Staff Actions
Impact on issuers (continued)	Accounting for litigation contingencies	<ul style="list-style-type: none"> • Analyze the effects on accounting and disclosure requirements for litigation contingencies under IFRSs in the U.S. legal environment. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Discuss with issuers, the legal profession, and investors their concerns regarding accounting and disclosures requirements for litigation contingencies under IFRSs. ◦ Determine possible approaches to address concerns regarding accounting and disclosure requirements for litigation contingencies under IFRSs and the extent of, logistics for, and estimated time necessary to undertake these approaches.
	Smaller issuers versus larger issuers	<ul style="list-style-type: none"> • Analyze the extent to which incorporation of IFRSs into the financial reporting system for U.S. issuers would affect smaller issuers differently than larger issuers and the extent of, logistics for, and estimated time necessary to undertake any changes. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Determine the manner in which the impact of incorporation of IFRSs varies according to issuer size. ◦ Determine possible approaches to mitigate concerns regarding any disproportionate effects on smaller issuers of incorporation of IFRSs and the extent of, logistics for, and estimated time necessary to undertake these approaches.
Human capital readiness	Education and training	<ul style="list-style-type: none"> • Analyze the sufficiency of the IFRS education and training infrastructure and the extent of, logistics for, and estimated time necessary to undertake changes. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Evaluate the current level of IFRS expertise and extent of IFRS education and training needs among constituents. ◦ Consider the extent of, logistics for, and estimated time to implement plans for future training among constituents.
	Auditor capacity	<ul style="list-style-type: none"> • Analyze potential auditor capacity constraints. Specifically, the staff will: <ul style="list-style-type: none"> ◦ Analyze concerns regarding auditor capacity constraints, including the effect on audit quality, cost, and audit firm concentration and competitiveness. ◦ Determine possible approaches to mitigate these concerns and the extent of, logistics for, and estimated time necessary to undertake these approaches.

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