
IFRS in the US

Current situation and next steps

.....
August 2011

At a glance

The SEC continues to move forward on several elements of its work plan, and has put forth an endorsement approach as one possible option.

IFRS already impacts US companies. This will continue as IFRS is adopted outside the US and as US GAAP standards converge.

Companies should take a measured approach, including a few key steps to prepare for the coming changes.

This publication corresponds to content found on the “Current situation and next steps” page of PwC’s US IFRS website (www.pwc.com/usifrs). Check back for regular updates.

Financial reporting in the United States is being influenced by International Financial Reporting Standards (IFRS). IFRS reporting considerations are already impacting business decisions. Understanding IFRS and its implications is a business imperative for US companies.

Current situation

In November 2008, the SEC issued a proposed “Roadmap” for a possible path to the adoption of International Financial Reporting Standards (IFRS) in the US. Until February 2010, there had been no further announcement from the SEC on the direction they would take.

In February 2010, the SEC published a statement of continued support for a single set of high-quality global accounting standards and acknowledged that IFRS is best positioned to serve in that role. The SEC’s statement described the matters that need to be further analyzed and the events that must occur between then and 2011, when the SEC expects to make a determination on whether or not to further incorporate IFRS into the US public markets. The statement included details of a work plan to be executed by the SEC staff to enhance the Commission’s analysis of the implications of a change to IFRS. The work plan identified six key areas of consideration:

- Sufficient development and application of IFRS for the US domestic reporting system;
- The independence of standard setting for the benefit of investors;

- Investor understanding and education regarding IFRS;
- Examination of the US regulatory environment that would be affected by a change in accounting standards;
- The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and accounting for litigation contingencies; and
- Human capital readiness

The first two areas consider the characteristics of IFRS and *whether* it should be further incorporated. The remaining four areas relate to transitional considerations to better evaluate *when* and *how* to effectively incorporate IFRS into US financial reporting. The SEC also committed to issuing regular public updates on the progress of its work plan.

In October 2010, the SEC published its first such public update, largely summarizing its progress to date in each of the work plan’s six areas. Although there were no major changes or developments, the SEC did commit to further updates and remained committed to a decision in 2011 on the future role of IFRS in the US.

In early December 2010, at the American Institute of CPAs (AICPA) annual conference, SEC Chairman Mary Schapiro dismissed speculation that the SEC would make a decision on IFRS by June of 2011, indicating simply that a decision would likely come during the calendar year. Also of note, she mentioned that the wide-ranging Dodd-Frank Act would have little or no bearing on the IFRS decision, and that the SEC would allow a “minimum of four years” for any transition to IFRS.

More recently, in May 2011, the SEC staff released a paper that invites dialogue as to how an endorsement mechanism for IFRS incorporation might work in the US. First, it describes a slower process of incorporating IFRS into the US financial reporting system, with an ultimate objective of US standards being compliant with IFRS. The FASB would change US GAAP over a defined period perhaps 5-7 years by endorsing, and thereby incorporating, individual IFRS standards into US GAAP.

Highlights of the SEC staff paper endorsement approach

Existing IFRSs would be categorized into three groups for incorporation, with the goal of minimizing the

transition impact to US issuers while providing useful information to investors. The categories are:

- Standards subject to current convergence projects, such as revenue and leasing;
- Standards that are expected to change in the near future; and
- All other standards including those that are not anticipated to undergo significant change.

The FASB would analyze the third group in an attempt to determine an approach to change that would minimize the effect on US issuers. One goal of the suggested approach is to allow prospective application of new requirements whenever possible. Another objective would be to avoid differences, but the endorsement mechanism would allow the FASB to modify or supplement IFRS, in the rare instances necessary to protect US investors. An option to voluntarily adopt full IFRS was beyond the scope of the paper.

The staff paper also describes the role of the SEC and the FASB. The SEC would:

- Maintain its statutory oversight of the FASB;
- Actively share its standard setting perspectives with the IASB;

- Contribute to the oversight and governance of the IASB through its participation on the IFRS Foundation Monitoring Board; and
- Maintain the ultimate authority under US securities laws to prescribe accounting principles and standards to be followed by US issuers

The FASB would continue as the US national standard setter, and would participate in the development of new standards, but the nature of its participation would differ from today. Rather than acting as the principal standard setter for new standards, the FASB would play an instrumental role by providing input and support to the IASB in its mission to develop high-quality, global standards. Through this active involvement with the IASB, it is expected that US modifications to new standards issued by the IASB would be avoidable except in rare instances. A key element of the FASB’s role is to develop a transition plan to effect the necessary changes over the next 5-7 years.

The SEC held an IFRS roundtable in Washington, DC, on July 7, 2011 to discuss the benefits and challenges of potentially incorporating IFRS into the US financial reporting system. At the event, SEC Chairman Mary Schapiro called the idea of IFRS in the US “a major decision for this agency, and not one to be taken lightly.”

Continued global adoption impacts US businesses today as countries adopt IFRS for statutory reporting purposes. Near-term IFRS adoption elsewhere in the world may also impact US companies through merger and acquisition activity, business dealings with customers and vendors reporting under IFRS, and subsidiaries with public reporting requirements.

Our point of view

PwC continues to support the goal of moving toward a single set of high-quality global accounting standards. We believe that IFRS is in the best interest of stakeholders, including investors both in the US and globally.

While we support ongoing FASB/IASB convergence efforts — assuming the new standards are of high quality — we do not believe that convergence alone will ultimately result in a single set of high-quality accounting standards. The only way to accomplish a single set is through ultimate adoption of IFRS.

The complexity and significance of these sweeping changes greatly exceeds that of traditional revisions to existing US GAAP.

Continued global adoption impacts US businesses today as countries adopt IFRS for statutory reporting purposes. Near-term IFRS adoption elsewhere in the world may also impact

US companies through merger and acquisition activity, business dealings with customers and vendors reporting under IFRS, and subsidiaries with public reporting requirements. For specific country data, see our interactive [“IFRS adoption by country” map](#).

While we believe that the issues in the work plan can be successfully addressed, there continues to be uncertainty. There are concerns in Europe that the SEC’s methodical pace is too slow. Some parties are questioning why the US should continue to participate on the IASB and its oversight groups.

We support the thorough way in which the SEC staff is gathering input, and we are confident thoughtful deliberations will occur among Commission members. It appears that the SEC is willing to explore an alternative path to an “all or nothing” approach which would lead to gradual incorporation of IFRS into the US accounting framework. There are both potential benefits and challenges to the

suggested endorsement approach. The bottom line is that transition will be tricky and, accordingly, any approach will have to be somewhat complex and nuanced.

What should you do?

According to a PwC IFRS survey, nearly 50% of US-based multinational companies are either currently using IFRS somewhere in the world, have completed an initial impact assessment, or are planning to do an assessment. We cannot stress enough the importance of an appropriate level of awareness and preparedness. In our experiences with IFRS conversions elsewhere in the world, many companies failed to adequately plan and were therefore forced to conduct last-minute transitions which increased conversion costs and left opportunities on the table. Through adequate advance planning, US companies can avoid those risks.

Awareness and preparedness are essential. Given the timeline, companies should be thoughtful and measured in their approach as they consider this complex challenge. Below are our suggestions on what companies should be doing now:

- **Perform an assessment.** Keep it high-level and strategic. Consider the implications on accounting, business, tax, financing, long-term contracts,

stakeholders, compensation programs, systems, processes and controls. Anticipate the impacted behaviors of non-US customers and vendors using IFRS already.

- **Focus on the challenge.** The next several years will bring major changes to US financial reporting. Whether changes arrive through convergence, an SEC-mandated move to IFRS, or continued IFRS adoption by subsidiaries and counterparties, the effect on US businesses will be considerable. Use scenario planning to incorporate likely convergence and IFRS adoption expectations into your strategic thinking and business planning. Closely follow SEC actions, new FASB and IASB standards, and the increasing international acceptance of IFRS and IFRS for SMEs for statutory purposes.

By keeping apprised of developments with IFRS at home and abroad, US companies may ensure that they and their affiliates remain well positioned to efficiently and effectively address issues relating to ongoing global conversion, near-term US GAAP and IFRS convergence, and the eventual US conversion to IFRS.

- **Maintain corporate oversight.** Influence transition timing, strategies, and policy decisions of non-US subsidiaries that are increasingly

likely to be on IFRS or IFRS for SMEs in the near future. IFRS adoption for statutory reporting continues in many territories. The UK is one example with a proposal to adopt IFRS for statutory purposes as early as 2014.

For non-US subsidiary adoptions, converting from local GAAP requires a commitment of management focus, resources, and funding. The transition will have implications on processes, systems, people, and tax, and may be costly, complex, and time-consuming. However, as more non-US subsidiaries adopt IFRS, there may be considerable benefits to the company as a whole, for example streamlining the consolidation process. To maximize these benefits, US corporate oversight is vital to ensure there is a uniform approach to the adoption of IFRS across all subsidiaries.

- **Identify what can be done now.** Determine the specific aspects of convergence and conversion that will take the longest, and consider smaller controlled one-off projects and “easy wins” where desirable.

By following these recommendations, companies will be better prepared for what comes next.

According to a recent PwC IFRS survey, nearly 50% of US-based multinational companies are either currently using IFRS somewhere in the world, have completed an initial impact assessment, or are planning to do an assessment.

***For additional insight regarding US GAAP
convergence & IFRS, please visit***

www.pwc.com/usifrs

James G. Kaiser
US Convergence & IFRS Leader
PwC LLP
(267) 330 2045
james.kaiser@us.pwc.com

David Schmid
US Convergence & IFRS Assurance Leader
PwC LLP
(312) 298 2939
david.schmid@us.pwc.com

Ken Kuykendall
US Tax Accounting Services and Tax IFRS Leader
PwC LLP
(312) 298 2546
o.k.kuykendall@us.pwc.com

Tripp Davis
US Convergence & IFRS Advisory Leader
PwC LLP
(312) 298 3673
tripp.davis@us.pwc.com