



In brief

An overview of financial reporting developments

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SEC Staff Paper explores one possible method to incorporate IFRS in the U.S.

What's new?

On May 26, 2011, the SEC's Office of the Chief Accountant published a [Staff Paper](#) exploring one possible method to incorporate IFRS into the U.S. financial reporting system. The possible method was first discussed in a December 2010 SEC staff member speech.

While no decision has been reached by the Commission on whether, when or how IFRS might be incorporated into the U.S. financial reporting system, the SEC staff continues to move forward on several elements of its work plan to analyze considerations relevant to the Commission's decision. The SEC expects to make its determination later in 2011.

What are the key elements of the framework?

Transition plan

The framework's objective is to converge IFRS into U.S. GAAP through a FASB led transition process so that U.S. issuers eventually could assert that they are also in compliance with IFRS as issued by the IASB.

The framework is essentially an endorsement approach, differing versions of which have been used by most countries with established capital markets. The FASB would change U.S. GAAP over a defined period by endorsing, and thereby incorporating, individual IFRSs into U.S. GAAP. Though the objective would be to avoid differences, the endorsement mechanism would allow the FASB to modify or supplement IFRS, in the rare instances necessary to protect U.S. investors.

An option to voluntarily adopt full IFRS is beyond the scope of the paper; however, the SEC staff is considering the mechanics and implications of such an option.

The roles of the SEC and FASB

The SEC would maintain its statutory oversight of the FASB. The SEC would also actively share its standard setting perspectives with the IASB, while also contributing to the oversight and governance of the IASB through its participation on the IFRS Foundation Monitoring Board. Under U.S. securities laws, the SEC would maintain the ultimate authority to prescribe accounting principles and standards to be followed by U.S. issuers.

The FASB would continue as the U.S. national standard setter. It 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 active involvement with the IASB, it is expected that U.S. modifications to new standards issued by the IASB would be avoidable.

The framework anticipates that the FASB would develop a transition plan to address existing IFRS and U.S. GAAP differences. The transition plan would be a multi-step process performed over approximately five to seven years. Existing IFRSs would be categorized for incorporation with the goal of minimizing the transition impact to U.S. issuers while providing useful information to investors. The transition plan would organize existing IFRSs into three groups: (1) standards subject to current convergence projects, (2) standards that are expected to change in the near future, and (3) all other standards including those that are not anticipated to be changed. The FASB and SEC staff would collaborate in analyzing this third group in an attempt to determine an approach to change that would minimize the effect on U.S. issuers — for example, by allowing for prospective application of new requirements whenever possible.

Perceived benefits and risks

The Staff Paper highlights that the framework may be more responsive to the needs of U.S. constituents than other potential methods of incorporation. For example, it may allow for a more flexible overall transition strategy. But its success is significantly dependent on a comprehensive and well executed transition plan.

The paper also highlights the potential for cost savings and the possibility for a more successful transition through gradual incorporation. Nevertheless, the paper also acknowledges that some larger issuers would prefer a single date adoption and may view the gradual transition approach as unnecessary.

The framework would minimize constituent concerns over complying with regulatory and contractual requirements based on U.S. GAAP. However, a gradual transition that modifies U.S. GAAP could cause confusion among constituents during the transition period as U.S. GAAP would be constantly evolving.

The SEC staff will continue to identify and analyze potential benefits and risks associated with the framework in anticipation of a decision regarding IFRS by the Commission.

Who's affected?

The final decision of whether, when and how to adopt IFRS will directly affect U.S. public companies, and may indirectly affect private companies.

What's next?

The SEC staff is interested in constituent views on the framework and any other possible approaches to the incorporation of IFRS, including views on those approaches explored previously. Comments are requested by July 31, 2011.

The SEC is holding a roundtable on July 7 to discuss the benefits and challenges of potentially incorporating IFRS into the U.S. financial reporting system. We expect that the Staff Paper will be among the items discussed at the roundtable.

Questions?

PwC clients with questions about this *In brief* should contact their engagement partner. Engagement teams that have questions should contact the National Professional Services Group.

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