IFRS in the US: The importance of being financially bilingual

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At a glance

US public companies will not be required to adopt IFRS in the foreseeable future, but it is increasingly important for a US capital market participant to be financially bilingual.

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Overview

Many of the world's capital markets now require IFRS, or some form thereof, for financial statements of public-interest entities. For specific country data, see our publication IFRS adoption by country, and for additional information, see the IASB's jurisdictional profiles.

The remaining major capital markets without an IFRS mandate are:

- The US, with no current plans to change
- Japan, where voluntary adoption is allowed, but no mandatory transition date has been established
- India, where regulatory authorities have made public statements about the intention to adopt, but no formal plans are in place
- China, which intends to fully converge at some undefined future date

Continued global adoption affects US businesses, as additional countries permit or require IFRS for statutory reporting purposes and public filings. IFRS requirements elsewhere in the world also impact US companies through cross-border, merger and acquisition (M&A) activity, IFRS' influence on US GAAP, and the IFRS reporting demands of non-US stakeholders.

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IFRS and the SEC

In July 2012, the Staff of the SEC's Office of the Chief Accountant issued its final report on its IFRS work plan that was intended to aid the SEC in evaluating the implications of incorporating IFRS into the US reporting system. The report did not include a recommendation from the staff on whether, when, or how IFRS might be incorporated into the US financial reporting system. The report also did not include any next steps toward a SEC decision on IFRS. The staff found little support for adopting IFRS as authoritative guidance in the US, and outright adoption would not be consistent with the method of incorporation followed by other major capital markets. However, the staff did find substantial support for exploring other methods of incorporating IFRS that demonstrate a US commitment to the objective of a single set of high-quality, global accounting standards.

So, a mandatory change to IFRS for US public companies is not expected for the foreseeable future. The SEC has not announced whether, when, or how IFRS might be incorporated into the US financial reporting system and it is not expected to do so in the near future. The lack of clear direction regarding IFRS is attributable to many factors, including the status of the FASB's and IASB's convergence projects, and a focus by the SEC on other required rulemaking (e.g., Dodd-Frank).

More recently, the SEC issued its draft strategic plan for 2014–2018, which states that one of its initiatives is to work to promote higher quality financial reporting worldwide, and consider, among other things, whether a single set of high-quality, global accounting standards is achievable. It does not mention IFRS specifically. Some commentators have pointed out that the SEC's plan seems to shift direction from its previous strategic plan in which it promised, "support for a single set of high-quality, global accounting standards," and, "ongoing convergence initiatives between" US and international standard setters.

In the meantime, the FASB and the IASB continue to work together on many aspects of the four remaining joint convergence projects: revenue recognition, financial instruments, leases, and insurance contracts. However, once these projects are complete, we believe that the era of convergence will be at an end. The future of further convergence remains uncertain as the Boards shift attention to their individual agendas.

For further discussion on the use of IFRS in the US and similarities and differences between US GAAP and IFRS, please refer to IFRS and US GAAP: similarities and differences – 2013 edition.

Why IFRS is relevant to US companies

IFRS is increasingly relevant to many US companies, big and small, public and non-public. Preparers are affected by IFRS in multiple ways, including:

- Cross-border, M&A, and capital-raising activities frequently require the use of IFRS
- Non-US stakeholders in US companies demand the use of IFRS
- Many non-US subsidiaries of US multinationals must comply with IFRS reporting requirements
- US GAAP change continues to be influenced by IFRS

The need to understand IFRS is also increasing among investors as they continue to look for global investment opportunities. Recent estimates suggest that over $6 trillion of US capital is invested in foreign securities. The US markets also remain open to non-US companies that prepare their financial statements using IFRS. There are currently over 450 non-US filers with market capitalization in the multiple of trillions of US dollars that use IFRS without reconciliation to US GAAP.

Therefore, it is clear from both the preparer and investor perspectives that being financially bilingual in the US is increasingly important. To gain deeper insight on how differences in financial reporting can affect cross-border deal value, please refer to The importance of being financially bilingual: how financial reporting differences can affect cross-border deal value.

Our point of view

We continue to believe in the long-term vision of a single set of consistently applied, high-quality, globally accepted accounting standards. The IFRS framework is best positioned to serve that role. However, acceptance of an outright move to international standards is off the table, at least for now. In the meantime, the FASB and IASB should continue to focus on improving the quality of their standards while preventing further divergence between US GAAP and IFRS.

What companies can and should do now

We believe there are four main challenges that merit companies' attention:

- Keeping pace with financial reporting change as the FASB and the IASB continue their standard-setting activities
- Carefully managing the adoption of new converged standards over the next several years
- Monitoring subsidiaries' IFRS accounting requirements
- Understanding how the structure of deals and transactions with non-US counterparties may be influenced by those counterparties' interest in IFRS accounting outcomes

To successfully face these challenges, companies should be thoughtful and measured in what actions they take in the near term relative to IFRS. Companies should identify what they can do now by ensuring a good understanding of the significant impacts that these financial reporting changes may have on their businesses. Maintaining corporate oversight of non-US subsidiaries' IFRS accounting should also be considered, as complex transactions arise, policies change, and new IFRS standards are adopted. We also recommend that companies stay engaged in the standard-setting process by participating in roundtables and comment letter processes. Finally, more near-term, detailed focus may be appropriate in areas that can be significantly impacted, such as M&A activity and taxes.

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