
IFRS in the US

Current situation and next steps

.....
August 2012

At a glance

The SEC continues to evaluate whether IFRS should become available to US domestic issuers.

PwC continues to support the goal of moving toward the vision of a single set of high-quality, globally accepted accounting standards, consistently applied.

Companies should be thoughtful and measured in what actions they take in the near term relative to IFRS.

Understanding IFRS and its implications is a business imperative for US companies.

Current situation

On July 13, 2012, the Staff of the SEC's Office of the Chief Accountant published its final report (the "Staff report") on its IFRS Work Plan.

What is in the Staff report on IFRS?

First, what's not in the Staff report is worth noting. The Staff report does not include a final policy decision, or even a recommendation, as to whether IFRS should be incorporated into the US financial reporting system, or how such incorporation should occur. The Work Plan was not intended to provide an answer to the threshold question of whether a transition to IFRS is in the best interests of US capital markets and US investors. Instead, it is an important information-gathering step in the SEC's decision-making process.

The Staff report also does not address whether US public companies should have the option to adopt IFRS on a voluntary basis. However, the Staff report does state that investors are generally in agreement that companies should not be permitted to adopt IFRS early, because it would compromise comparability with US companies applying US GAAP.

In the Staff report, the Staff indicates that IFRS is generally perceived to be of high quality. However, there are areas where gaps remain (for example, accounting for rate-regulated industries and oil and gas industries), and inconsistencies exist in the application of IFRS globally. The Staff also believes that improvements can be made to the IFRS interpretative process and the enforcement and coordination activities of regulators across territories. Finally, although it acknowledges progress has been made, the Staff believes enhancements should be made to the IASB's coordination with individual country accounting standard setters and the IASB's funding process.

What conclusions are reached?

The Staff report states that adopting IFRS as authoritative guidance in the United States is not supported by the vast majority of participants in the US capital markets, and would not be consistent with the methods of incorporation followed by other major capital markets (for example, the endorsement process followed by the European Commission).

On the other hand, the Staff found there to be substantial support for exploring other methods of incorporating IFRS (such as the endorsement method) that demonstrate the US commitment to the objective of a single set of high-quality, globally accepted accounting standards.

Background

In early 2010, the SEC published a statement of continued support for a single set of high-quality, globally accepted accounting standards, and acknowledged that IFRS is best positioned to serve this role. The SEC initiated an IFRS Work Plan at that time to obtain information relevant to the determination of whether, when, and how IFRS might be incorporated into the US financial reporting system. The Work Plan identified six key areas of consideration:

- Sufficient development and application of IFRS for the US domestic reporting system (addresses IFRS comprehensiveness, consistency of application, and enforceability);
- The independence of standard-setting for the benefit of investors (addresses the IASB's governance structure);
- Investor understanding and education regarding IFRS;
- Examination of the effects on the US regulatory environment resulting from 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.

In May 2011, the SEC Staff published a paper exploring one possible method of incorporating IFRS into the US financial reporting system, involving an active FASB incorporating IFRS into US GAAP over an extended period of time (the “endorsement” method). Under this method, the FASB would remain the US standard setter and potentially endorse new IFRSs into the US financial reporting system. Additionally, the FASB would also consider existing IFRSs during a multiple-year period, and consider how to conform US standards to them where there are differences. The Financial Accounting Foundation (FAF), which oversees the FASB, submitted a letter to the SEC that largely supported the endorsement method, but provided some recommended changes. The most significant proposed modification is that the goal of the endorsement process outlined by the FAF is to achieve US GAAP that is highly comparable (but not necessarily identical) to IFRS.

In November 2011, the SEC Staff subsequently published two additional papers, [one examining the remaining differences between the US GAAP and IFRS frameworks](#) and [another on the application of IFRS in practice](#).

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

The Staff report indicates that additional analysis is necessary before any SEC decision is made about incorporating IFRS into the US financial reporting system. The timing of this additional activity is currently unknown, but may extend beyond 2012.

In the meantime, PwC continues to support the goal of moving toward the vision of a single set of high-quality, globally accepted accounting standards, consistently applied. Achieving that goal will require more consistent application of international standards across jurisdictions that adopt them. We believe that IFRS is in the best interest of stakeholders, including both investors in the US and globally.

Progress continues on the priority joint projects - leasing, revenue recognition and financial instruments - and significant decisions have been made. The complexity and significance of these changes greatly exceeds that of traditional revisions to existing US GAAP. We continue to support ongoing FASB and IASB convergence efforts in working toward the vision.

The SEC continues to evaluate whether IFRS should become available to US domestic issuers. However, adoption of IFRS in all major capital markets will not, in and of itself, achieve the vision. This is because the protection of investors and the efficient application of capital globally can only be achieved when the common set of high-quality global accounting standards is also applied with reasonable consistency. Thus, achieving

the vision requires the adoption of IFRS in all significant capital markets and enhanced cooperation and coordination among national regulators, the IASB and its interpretive body, preparers, and auditors in order to facilitate the consistent application of IFRS. Both of these elements must exist before the vision can become a reality.

Continued global adoption impacts US businesses today, as additional countries permit or require IFRS for statutory reporting purposes and public filings. 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](#).

What you should do?

According to [PwC's 2011 US IFRS outlook survey](#), nearly 50% of respondents indicated they are either already reporting on IFRS (e.g., non-US based companies or subsidiaries of non-US companies), are currently using IFRS for certain non-US subsidiaries, or are in the process of transitioning certain subsidiaries to IFRS. Therefore, it is not just a wait-and-see proposition – many US companies are already dealing with transition issues.

Given the unclear timeline, companies should be thoughtful and measured in what actions they take in the near term relative to IFRS. One area of focus should be on the major changes to US financial reporting through the continued

convergence with IFRS. Companies should identify what can be done now by ensuring a good understanding of the significant impacts that these financial reporting changes may have and communicate that understanding to key stakeholders. They may also want to consider incorporating likely convergence and IFRS adoption expectations (especially, on non-US subsidiaries) into strategic thinking and business and technology planning. Maintaining corporate oversight and planning to influence transition timing, strategy, and policy decisions by non-US subsidiaries or investees should also be considered. Staying engaged in the standard-setting process by participating in roundtables and the comment letter process is also recommended. Finally, more near-term, detailed focus may be appropriate in areas that can be significantly impacted such as M&A activity and taxes.

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

According PwC's 2011 US IFRS outlook survey, nearly 50% of respondents indicated they either already reporting on IFRS, are currently using IFRS or are in the process of transitioning certain subsidiaries to IFRS.

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
(973) 236 7247
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