



SEC Continues to Support IFRS for U.S. Issuers

February 24, 2010 — The Securities and Exchange Commission (SEC) met and unanimously approved the release of a statement continuing its support for a single set of high-quality, globally accepted accounting standards and its consideration of incorporating International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers.

KEY POINTS

The statement references a work plan that will outline activities the SEC intends to complete so it can decide whether to incorporate IFRS into the U.S. financial reporting system. In addition, following the work plan will help the SEC determine when and how to make the transition to IFRS if a decision to adopt IFRS is made in 2011.

SEC Chairman Mary L. Schapiro noted that both this work plan and the successful completion of the convergence projects outlined in the most recent *Memorandum of Understanding between the FASB and the IASB* are necessary before the SEC considers incorporating IFRS into the U.S. financial reporting system. As a result, most U.S. filers will be affected by changes made to U.S. GAAP accounting standards related to these accounting issues long before the adoption of full IFRS.

The SEC statement and work plan are intended to “enhance understanding of the Commission’s purpose” and provide greater transparency into the actions its staff will be taking to complete their analysis. The SEC staff will begin issuing status reports regarding progress against the work plan no later than October of 2010 and will continue to provide frequent updates.

Commissioner Elisse B. Walter was quick to note this is not a work plan for “early adoption” of IFRS, and that convergence and independence of accounting standard setting were critical milestones within the plan. Commissioner Kathleen L. Casey clarified that optional or early adoption were still viable options. The SEC will consider early adoption as a part of this work plan and may include early adoption in its transition plan to be finalized in 2011.

Based on comment letters, Chief Accountant James L. Kroeker noted issuers could need four to five years to make the transition to IFRS. Given the SEC’s desire to provide issuers adequate time to implement IFRS, a decision in 2011 would logically lead to an implementation date in 2015 or 2016. The staff will evaluate this during the execution of the work plan.

The SEC work plan will focus on the following key areas:

- Determining whether IFRS is sufficiently developed and consistent in application for use as the single set of accounting standards in the U.S. reporting system
- Ensuring accounting standards are set by an independent standard-setter and for the benefit of investors

- Investor understanding and education regarding IFRS, and how it differs from U.S. GAAP
- Understanding whether U.S. laws or regulations, outside of the securities laws, for example tax laws and regulatory reporting, would be affected by a change in accounting standards
- Understanding the impact on companies, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies
- Determining whether the people who prepare and audit financial statements are sufficiently prepared, through education and experience, to make the conversion to IFRS

The SEC commissioners emphasized that none of these items should be viewed as check-points that, once passed, drive adoption but rather are focus areas that should be evaluated in making their decision.

In the question and answer session with the staff, the SEC focused on two key topics. First, the commissioners indicated an analysis of the independence of the IASB's standard-setting process would be critical in deciding to incorporate IFRS into the U.S. reporting system. To that point, SEC Chairman Schapiro asked if the analysis would help determine if it ever would be desirable for U.S. companies to be subjected to rules promulgated by a body outside of the SEC's jurisdiction.

Second, the SEC asked about the staff's actions relative to the cost of implementation and the related benefits to be received by globally active companies versus smaller, domestic filers. This implies the SEC staff will carefully assess the implications of IFRS adoption on different categories of filers.

IMPACT TO U.S. COMPANIES

The February 24 SEC meeting and statement have a number of implications for U.S. filers. While an adoption date for IFRS appears to be moved out into 2015 or 2016, your organization will be directly affected by the significant U.S. GAAP changes being considered in the convergence projects. These projects are focusing on revenue recognition, leases, financial statement presentation, income taxes and other accounting areas. As a U.S. filer, you should evaluate the impact of these pending changes on your financial reporting and related systems, controls and long-range business strategies. These changes provide an opportunity for you to evaluate, test-drive and enhance your company's ability to implement significant accounting changes in advance of a mandate to adopt IFRS.

If your company is a large, globally active issuer with securities listed in foreign markets and operations around the globe, you may benefit from the adoption of IFRS. You should still consider whether you are a candidate for optional or early adoption. If so, you should conduct initial planning efforts now to be prepared to take advantage of this election should it be promulgated by the SEC.

HOW JEFFERSON WELLS CAN HELP

Jefferson Wells is a global provider of comprehensive financial reporting and technical accounting services, including research, documentation, ongoing SEC reporting compliance and knowledge transfer. We can provide clients with the skills required to assess and implement FASB accounting standards updates and to lead GAAP-to-GAAP conversions.

Because Jefferson Wells does not perform attest services, we are positioned to support issuers in making and implementing accounting policy and related changes without conflict-of-interest issues.

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