

Hot Topic

Update on major accounting
and auditing activities

SEC reaffirms its commitment to IFRS

Contents

| | |
|--|---|
| Introduction..... | 1 |
| The Work Plan | 2 |
| Sufficient development and consistent application of IFRS | 2 |
| Independence of the standard setting process | 2 |
| Investor understanding and education... | 2 |
| Examination of the US regulatory environment..... | 2 |
| The effect of IFRS on US issuers, both large and small..... | 2 |
| Human capital readiness | 2 |
| Ongoing role of the FASB | 3 |
| Next steps | 3 |

Introduction

On 24 February 2010, the US Securities and Exchange Commission (SEC) voted unanimously to publish a statement (the Statement)¹ reaffirming its longstanding commitment to the goal of a single set of high-quality global accounting standards and expressing its continued support for the convergence of US Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS).² The SEC Commissioners generally agreed that timely completion of these convergence efforts, among other things, would best position IFRS to serve as the single set of global accounting standards.

SEC Chairman Mary Schapiro commented that supporting the development of a single set of high-quality accounting standards is, in many respects, “only the beginning of the discussion, not the end” and incorporating IFRS into the US financial reporting system would involve a “significant undertaking” that includes consideration and deliberation of

whether such a change is in the best interest of US investors and markets. Chairman Schapiro further commented that, while the SEC does not yet have all the information necessary to make a decision regarding IFRS, it remains “on a steady path” to be in a position to make such a determination in 2011, the target date identified in the SEC’s proposed IFRS Roadmap.³

To aid the Commissioners in their evaluation, the staff of the Office of the Chief Accountant will execute a comprehensive work plan that addresses specific factors and areas of concern before the SEC makes its decision on whether, when and how it will further incorporate IFRS into the US financial reporting system for US issuers (the Work Plan). Specifically, the Work Plan addresses the following areas of concern that were highlighted in comment letters submitted in response to the SEC’s proposed IFRS Roadmap:

- ▶ Sufficient development and consistent application of IFRS

¹ SEC Release No. 33-9109, *Commission Statement in Support of Convergence and Global Accounting Standards*.

² The term “IFRS” in this publication refers to International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

³ SEC Release No. 33-8982, *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*.

This and many of the publications produced by our US Professional Practice Group, are available free on AccountingLink at ey.com/us/accountinglink

- ▶ Independence of the standard setting process
- ▶ Investor understanding and education
- ▶ Examination of the US regulatory environment
- ▶ The effect of IFRS on US issuers, both large and small
- ▶ Human capital readiness

The SEC stated that it believes execution of the Work Plan will position it in 2011 to make an informed determination regarding the further incorporation of IFRS into the US financial reporting system for US issuers. SEC Chief Accountant James Kroeker suggested that if in 2011 the SEC determines that it will further incorporate IFRS into the US financial reporting system, US issuers would be provided with adequate time to make the transition. Mr. Kroeker suggested that the move could be made in “approximately 2015 or 2016.” However, Mr. Kroeker stated that the SEC staff will further evaluate this timeline as part of its analysis.

The Statement and related SEC staff work plan are available at <http://www.sec.gov/rules/other/2010/33-9109.pdf>.

The Work Plan

Many of the comment letters received in response to the proposed IFRS Roadmap suggested that it did not sufficiently articulate a plan for identifying and addressing the specific issues resulting from the further incorporation of IFRS into the US financial reporting system. In light of these comments and under the direction of the SEC, the staff in the Office of the Chief Accountant developed a transparent work plan that identifies factors that it believes are most relevant to a future determination by the SEC regarding the use of IFRS by US issuers.

In executing the Work Plan, the SEC staff will gather information by performing its own research as well as by seeking comment from, holding discussions with, and analyzing information from constituents. The SEC staff

also will consider the experiences of jurisdictions that have successfully incorporated or plan to incorporate IFRS into their financial reporting systems.

The SEC staff stated that it will provide public progress reports on the Work Plan beginning in October 2010.

Sufficient development and consistent application of IFRS

The SEC staff will consider whether IFRS is sufficiently developed and consistently applied for use in the US financial reporting system. In this regard, the SEC staff will evaluate the comprehensiveness and enforceability of IFRS as well the auditability and comparability of financial statements prepared using IFRS, both in concept and in practice. These efforts will include consideration of the IASB’s efforts to improve IFRS through its joint conversion agenda with the FASB.

Several Commissioners commented that the convergence projects currently underway between the FASB and IASB would have to be completed before the SEC would be in a position to reach a decision regarding IFRS adoption in 2011.

Independence of the standard setting process

The SEC staff will assess the independence of the international standard setting process for the benefit of investors. Specifically, the SEC staff will consider the extent to which the IASB’s governance (including its Monitoring Board), composition, funding and standard setting process continue to promote the reporting of full, fair and reliable financial information to support investors in their capital allocation decision making.

Investor understanding and education

The SEC staff will consider investor understanding and education regarding IFRS, including the current familiarity with IFRS, the actions needed to facilitate further understanding and the timeframe to do so.

Examination of the US regulatory environment

The SEC staff will examine how the US regulatory environment would be affected by the further incorporation of IFRS into the US financial reporting system. While the SEC does not directly prescribe the provision and content of information provided to other regulators, such as industry and tax regulators, the SEC’s decision to incorporate IFRS likely would affect regulatory regimes and parties subject to those regimes. The SEC staff will evaluate the implications of incorporating IFRS on these different regulatory environments.

The effect of IFRS on US issuers, both large and small.

The SEC staff will evaluate the effect on US issuers, both large and small, of further transitioning IFRS into the US financial reporting system. Specifically the SEC staff will assess the scope and timing of potential approaches for US issuers to make the necessary changes to their accounting systems, controls and procedures, and contractual arrangements. The SEC staff also will consider the effect of IFRS in the US on an issuer’s ability to comply with corporate governance requirements, including the requirements for audit committee financial experts, and requirements related to the accounting for litigation contingencies. In addition, the SEC staff will consider whether the cost of a potential transition to IFRS would be more burdensome for smaller issuers.

Human capital readiness

The SEC staff will assess the readiness of all parties involved in the financial reporting process, including regulators, for the further incorporation of IFRS in the US financial reporting system. The SEC staff also will consider the constraints on the availability of individuals experienced in the application of IFRS and required education, training and timeframe necessary to address these constraints.

Ongoing role of the FASB

While much of the SEC's discussion was focused on the content of the Work Plan, the SEC staff also addressed one of the most frequent concerns raised in comment letters submitted in response to the proposed IFRS Roadmap. Many constituents voiced concern about following standards developed by a standard setting body over which the SEC has no control. Chairman Schapiro asked the SEC staff to comment on how these concerns were being addressed. Mr. Kroeker first pointed out that the SEC is represented on the Monitoring Board that oversees the International Accounting Standards Committee Foundation (the Board of Trustees with oversight responsibility for the IASB) and, therefore, has influence over the standard setting actions of the IASB. Further, Mr. Kroeker pointed out that the Statement acknowledges that the FASB will play a very important role in further aligning US GAAP with IFRS and would be expected to have an ongoing and substantive role in a post-incorporation world.

Next steps

Ernst & Young commends the SEC for reaffirming its support for a single set of high-quality global accounting standards and we are pleased that the SEC expressed its support for IFRS as that single set of high-quality standards. We recognize the importance of all of the SEC's stakeholders working together to help move this important initiative forward, and in this regard, we are committed to working with the SEC staff as it carries out its work plan. Look for more communication and analysis from Ernst & Young as the Work Plan progresses.

Your gateways to Ernst & Young technical accounting guidance

AccountingLink at ey.com/us/accountinglink offers easy access to many of the publications produced by our US Professional Practice Group. AccountingLink is available free of charge.

Our **Global IFRS website** at ey.com/ifrs offers online resources that provide more detail about IFRS, as well as issues to consider as you research the potential impact of IFRS on your company.

GAAIT-Client Edition contains Ernst & Young's comprehensive proprietary technical guidance, as well as all standard-setter content. GAAIT-Client Edition is available through a paid subscription.

Ernst & Young

Assurance | Tax | Transactions | Advisory

© 2010 Ernst & Young LLP.

All Rights Reserved.

SCORE No. CC0294

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global and of Ernst & Young Americas operating in the US.

This publication has been carefully prepared but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decision.