

SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33-9109; 34-61578]

Commission Statement in Support of Convergence and Global Accounting Standards

AGENCY: Securities and Exchange Commission.

ACTION: Commission statement.

SUMMARY: The Securities and Exchange Commission (the "Commission") is publishing this statement to provide an update regarding its consideration of global accounting standards, including its continued support for the convergence of U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS") and the implications of convergence with respect to the Commission's ongoing consideration of incorporating IFRS into the financial reporting system for U.S. issuers.

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SUPPLEMENTARY INFORMATION:

The Commission continues to believe that a single set of high-quality globally accepted accounting standards will benefit U.S. investors and that this goal is consistent with our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. As a step toward this goal, we continue to encourage the convergence of U.S. GAAP and IFRS and expect that the differences will become fewer and narrower, over time, as a result of the convergence project.

The Commission last addressed this topic in November 2008 when it issued a proposed "Roadmap" for a possible path to a single set of globally accepted accounting standards.¹ The Proposed Roadmap generated significant interest and thoughtful comment from investors, issuers, accounting firms, regulators,

¹ See *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*, Release No. 33-8982 (November 14, 2008) [73 FR 70816 (November 21, 2008)] ("Proposed Roadmap").

and others regarding factors that the Commission should consider as it moves forward in its evaluation of whether and how to incorporate IFRS into the financial reporting system for U.S. issuers. In addition to reaffirming the Commission's strong commitment to a single set of global standards, the recognition that IFRS is best-positioned to be able to serve the role as that set of standards for the U.S. market, and the convergence process ongoing between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"), this statement outlines certain of these factors that are of particular importance to the Commission as it continues to evaluate IFRS through 2011.

The Commission has directed its staff to develop and execute a work plan (the "Work Plan") to enhance both understanding of the Commission's purpose and public transparency in this area.² Execution of the Work Plan, combined with the completion of the convergence projects of the FASB and the IASB according to their current work plan, will position the Commission in 2011 to make a determination regarding incorporating IFRS into the financial reporting system for U.S. issuers.

I. Overview

A. History of the Commission's Steps To Foster a Single Set of High-Quality Globally Accepted Accounting Standards

The Commission has long promoted a single set of high-quality globally accepted accounting standards.³ This position advances the dual goals of improving financial reporting within the United States and reducing country-by-country disparity in financial reporting. This, in turn, would facilitate cross-border capital formation while also helping to provide investors with the comparable and material information they need to make informed decisions about investment opportunities. In 1988, the Commission issued a policy statement supporting the establishment of mutually acceptable international accounting standards, provided that investor protections were not compromised.⁴ The Commission cited

² The Work Plan is included as an appendix to this statement. A summary of the key areas of the Work Plan is provided in section IV of this statement.

³ See, e.g., *Integrated Disclosure System for Foreign Private Issuers*, Release No. 33-6360 (November 20, 1981) [46 FR 58511 (December 2, 1981)].

⁴ See *Regulation of the International Securities Markets*, Release No. 33-6807 (November 14, 1988) [53 FR 46963 (November 21, 1988)].

the establishment of such standards as a critical goal to reduce regulatory impediments to cross-border capital transactions that result from disparate national accounting standards.⁵

In a 1997 report to Congress, the Commission encouraged the efforts of the International Accounting Standards Committee to develop a core set of accounting standards that could serve as a framework for financial reporting in cross-border offerings. In that report, the Commission also expressed its intent to remain active in the development of those standards.⁶ These standards are now known as IFRS, and the International Accounting Standards Committee was succeeded by the IASB.

In 2000, the Commission issued a concept release on international accounting standards, seeking comment on the requisite elements to encourage convergence toward a global financial reporting framework that would not diminish the quality of domestic financial reporting.⁷ The 2000 Concept Release discussed generally the circumstances under which the Commission would consider accepting financial statements from foreign private issuers⁸ that are prepared using IFRS without a reconciliation to U.S. GAAP.⁹

In the 2000 Concept Release, the Commission set out some fundamental attributes for a high-quality set of accounting standards that continue to be important today. These attributes require that the standards (a) be of sufficiently high quality to support the Commission's mission of protecting investors and facilitating capital formation, and (b) be supported by an

⁵ *Id.*

⁶ See "Pursuant to Section 509(5) of the National Securities Markets Improvement Act of 1996 Report on Promoting Global Preeminence of American Securities Markets" (October 1997).

⁷ See *International Accounting Standards*, No. 33-7801 (February 16, 2000) [65 FR 8896 (February 23, 2000)] ("2000 Concept Release").

⁸ The term "foreign private issuer" is defined in Exchange Act Rule 3b-4(c) [17 CFR 240.3b-4(c)]. A foreign private issuer means any foreign issuer other than a foreign government, except an issuer that meets the following conditions: (1) more than 50 percent of the issuer's outstanding voting securities are directly or indirectly held of record by residents of the United States; and (2) any of the following: (i) The majority of the executive officers or directors are United States citizens or residents; (ii) more than 50 percent of the assets of the issuer are located in the United States; or (iii) the business of the issuer is administered principally in the United States.

⁹ In 2007, the Commission adopted rules permitting foreign private issuers to file financial statements using IFRS as issued by the IASB and to omit a reconciliation to U.S. GAAP. See *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP*, Release No. 33-8879 (December 21, 2007) [73 FR 986 (January 4, 2008)] ("2007 Adopting Release").

infrastructure that ensures that the standards are established by independent standard setters, and are rigorously and consistently interpreted and applied.

After enactment of the Sarbanes-Oxley Act of 2002 (the "Act"), the Commission reaffirmed its recognition of the financial accounting and reporting standards of the FASB as "generally accepted" for purposes of the federal securities laws.¹⁰ One of the criteria that Congress required the Commission to consider, when recognizing an accounting standard setter, was whether that standard setter considers "international convergence on high-quality accounting standards as necessary or appropriate in the public interest and for the protection of investors."¹¹

Also as required by Congress in the Act, in 2003, our staff issued a study on the adoption in the United States of a principles-based accounting system.¹² That study stated that global accounting standardization through convergence would lead to the following benefits:

- Greater comparability for investors across firms and industries on a global basis;
- reduced listing costs for companies with multiple listings;
- increased competition among exchanges;
- better global resource allocation and capital formation;
- lowered cost of capital; and
- a higher global economic growth rate.¹³

Beginning in 2002, the FASB and the IASB began a formal process to converge U.S. GAAP and IFRS. In 2002, the FASB and the IASB announced the issuance of a memorandum of understanding to collaborate on the development of common, high-quality standards with the ultimate goal of a single set of high-quality global accounting standards.¹⁴ In 2006, the FASB and the IASB issued an updated memorandum of understanding that set forth the scope of their joint work program to improve and promote convergence of their

accounting standards.¹⁵ The 2006 memorandum of understanding was updated in September 2008 to identify targets for completion of convergence projects that the FASB and the IASB believed were most critical.¹⁶ Throughout this process the Commission has monitored, and will continue to monitor, the activities of the FASB and the IASB and the progress in their efforts.

In 2007, the Commission took two additional actions. First, it issued a concept release on whether U.S. issuers should be allowed to prepare financial statements in accordance with IFRS.¹⁷ Second, the Commission adopted rules that allow foreign private issuers to make filings with the Commission using financial statements prepared in accordance with IFRS, as issued by the IASB, and without reconciliation to U.S. GAAP.¹⁸

Recently, the leaders of the Group of Twenty nations ("G-20") requested that international accounting bodies redouble their efforts to achieve a single set of high-quality, global accounting standards through their independent standard-setting processes and complete their convergence project in June 2011.¹⁹ The FASB and IASB recently reaffirmed their commitment to improving and converging their respective accounting standards, and further committed to intensify their efforts to meet a 2011 timeline.²⁰ Chairman Mary L. Schapiro also recently noted the Commission's commitment "to the goal of a global set of high-quality accounting standards."²¹

¹⁵ See "Memorandum of Understanding between the FASB and the IASB" (February 27, 2006). (available at: http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156245558)

¹⁶ See "Completing the February 2006 Memorandum of Understanding: A progress report and timetable for completion" (September 2008). (available at: http://www.fasb.org/intl/MOU_09-11-08.pdf)

¹⁷ See *Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards*, Release No. 33-8831 (August 7, 2007) [72 FR 45600 (August 14, 2007)] ("2007 Concept Release").

¹⁸ See 2007 Adopting Release.

¹⁹ See "Leaders' Statement from the Pittsburgh Summit" (September 24-25, 2009). (available at: https://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf)

²⁰ See "FASB and IASB Reaffirm Commitment to Memorandum of Understanding: A Joint Statement of the FASB and IASB" (November 5, 2009). (available at: http://www.iasb.org/NR/rdonlyres/D56F53A2-1FFE-425B-824B-9092E8A2D545/0/JointCommunique_October2009FINAL4.pdf)

²¹ See Speech by SEC Chairman Mary L. Schapiro: *Remarks at IOSCO Technical Committee Conference* (October 8, 2009).

B. The Proposed Roadmap

In November 2008, the Commission proposed a path to evaluating the further role of IFRS in the U.S. capital markets.²² The Proposed Roadmap sought comment on a number of suggested "milestones" that the Commission might consider.

The Proposed Roadmap contemplated that, subject to an assessment of the milestones and other considerations, and after consideration of public comment, the Commission could be in a position in 2011 to decide whether to require the use of IFRS by U.S. issuers beginning in 2014, potentially allowing earlier use by certain U.S. issuers beginning with filings for fiscal years ending on or after December 15, 2009.²³

II. Public Feedback on the Commission's Proposed Roadmap

We received over 200 comment letters on the Proposed Roadmap from a wide variety of market participants, including those representing investors, regulators, issuers, accounting, legal, and other professions, academia, standard setters, and international organizations.²⁴ Commenters generally expressed widespread support for the ultimate goal of having a single set of high-quality globally accepted accounting standards.²⁵ However, commenters differed in their views about the approach in the Proposed Roadmap to achieve further use of IFRS in the U.S. capital markets. Several commenters asserted that there are many transition questions and issues arising from the proposed approach that the Commission should consider further.²⁶

A. Potential for High-Quality Globally Accepted Accounting Standards

There was widespread support across all commenters for a single set of high-

²² See Proposed Roadmap. Unless otherwise noted, the phrase "IFRS" refers to "IFRS as issued by the IASB."

²³ The Proposed Roadmap did not address the method the Commission might use to mandate IFRS for U.S. issuers. See *Id.*

²⁴ Comment letters in response to the Proposed Roadmap are available on the Commission's Web site (at <http://www.sec.gov/comments/s7-27-08/s72708.shtml>). Comments are also available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m.

²⁵ See, e.g., Abbott Inc. ("Abbott"), Air Products and Chemicals, Inc., California Public Employees' Retirement System ("CalPERS"), CFA Institute ("CFA"), Council of Institutional Investors ("CII"), International Corporate Governance Network ("ICGN"), Institute of International Finance, Investors Technical Advisory Committee ("ITAC"), RiskMetrics Group, Inc. ("RiskMetrics"), and Standard & Poor's Ratings Services ("S&P").

²⁶ See, e.g., AT&T Services, Inc., The Boeing Company ("Boeing"), and Chevron Corporation.

¹⁰ See *Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter*, Release No. 33-8221 (April 25, 2003) [68 FR 23333 (May 1, 2003)] ("2003 Policy Statement").

¹¹ See Section 19 of the Securities Act of 1933, as amended (15 U.S.C. 77a).

¹² See "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System" (July 25, 2003) ("2003 Study").

¹³ *Id.*

¹⁴ See "Memorandum of Understanding, 'The Norwalk Agreement,'" (September 18, 2002). (available at: <http://www.fasb.org/news/memorandum.pdf>)

quality globally accepted accounting standards.²⁷ While commenters offered differing perspectives, some commenters identified the following potential benefits from a single set of global accounting standards:

- Improved financial statement comparability among companies worldwide;
- streamlined accounting processes for multinational companies; and
- easier access to foreign capital and improved liquidity, leading to a reduced cost of capital.²⁸

The potential benefits identified by commenters generally are consistent with the perceived benefits discussed in the staff's 2003 Study. Improved comparability was the most frequently cited potential benefit from the use of a single set of global accounting standards.²⁹ However, some commenters, while expressing support for the concept of a single set of global accounting standards, expressed reservations regarding whether the adoption of global accounting standards is a feasible objective.³⁰ Some of these concerns are discussed below.

B. The Proposed Roadmap

Opinions regarding the approach outlined in the Proposed Roadmap diverged. The key areas of concern expressed by the commenters include the readiness of IFRS to serve as the set of accounting standards for U.S. issuers, the need for continued convergence of IFRS and U.S. GAAP, and the timeframe set for, and potential costs of, transitioning U.S. GAAP to IFRS.³¹

Opinions regarding the potential of IFRS, in its current state, to serve as the single set of global accounting standards varied broadly across and within categories of commenters. While larger, multinational firms and commenters from the accounting profession generally saw IFRS as best positioned for the role of the single set of global

accounting standards,³² a number of other commenters expressed concerns regarding the capability of these standards, in their current state, to serve that role.³³

Many investors and investor groups that addressed this issue expressed the view that it was too early to judge the potential of IFRS to serve as the single set of global accounting standards.³⁴ Commenters who expressed this view noted that:

- IFRS is not sufficiently developed or applied in practice to be adopted as a single set of global standards (*e.g.*, either IFRS lacks guidance in certain significant areas, or the guidance it does contain appears to or may allow too much latitude to achieve more comparable financial reporting than U.S. GAAP);
- jurisdictional variants in the application of IFRS pose a significant challenge to the adoption of IFRS as a truly global reporting model; and
- the achievement of a genuine common global financial reporting model would require consistent application, auditing, and enforcement across countries.³⁵

In addition, some commenters expressed concern that a "business case" has not been sufficiently demonstrated to support moving from existing U.S. GAAP directly to IFRS. These commenters contend that existing U.S. GAAP is already widely accepted worldwide and is seen as high-quality, and that not all U.S. companies compete for capital globally or issue securities outside the U.S. market, so the primary effect of the Proposed Roadmap would be increased costs in return for minimal and largely conceptual benefits.³⁶ Others noted that significant challenges likely would arise in having an international organization as the ultimate body that would set standards for U.S. issuers.³⁷ Commenters in this area questioned whether this would be a wise policy, given the Commission's long-standing statutory role of setting

and overseeing financial reporting standards for the United States.³⁸

In contrast to the varying perspectives on the potential use of IFRS to serve as the common set of global accounting standards, commenters were more consistent with respect to their concerns on the approach and schedule outlined in the Proposed Roadmap. Many commenters, particularly investors, believed that the Commission should articulate how it intended to mandate the use of IFRS in the United States before they would be willing to support such a move.³⁹ Also, many commenters believed the proposal either underestimated or did not adequately address the many critical issues and costs (both quantitative and qualitative) that would be involved in meeting the transition timing suggested in the Proposed Roadmap. For example, while many commenters believed the proposal identified in concept many of the factors to be considered in choosing a particular path forward for the U.S. capital markets, they also believed that it did not sufficiently articulate a plan for identifying and addressing the specific issues and the criteria against which they would be judged.⁴⁰ As a result, several commenters recommended that the Commission further develop a plan to determine the appropriate path forward, including the affirmative actions and specific steps that need to be taken.⁴¹

III. Approach Forward for the U.S. Capital Markets

We continue to support the objective of financial reporting in the global markets pursuant to a single set of high-quality globally accepted accounting standards. As evidenced by the recent economic crisis, the activities and interests of investors, companies, and markets are increasingly global. This continued globalization of our markets reinforces the idea that the pursuit of this goal is consistent with our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

Since the second half of 2007, the world economy has experienced economic conditions not seen since the Great Depression. What at one time was viewed by some as an isolated crisis in the subprime mortgage sector spread to

²⁷ See, *e.g.*, Accretive Solutions, Alcoa Inc. ("Alcoa"), CalPERS, Center for Audit Quality, Cleary Gottlieb Steen & Hamilton LLP, General Mills, Inc., Institute of Management Accountants, State of New York Banking Department, PricewaterhouseCoopers LLP ("PwC"), and RiskMetrics.

²⁸ See, *e.g.*, Liberty Global and Graybar Electric Company, Inc. ("Graybar") comment letters for lists of potential benefits from the use of a single set of global standards.

²⁹ See, *e.g.*, American Institute of Certified Public Accountants ("AICPA"), Federation of European Accountants ("FEE"), and Institute of Chartered Accountants of Scotland.

³⁰ See, *e.g.*, Liberty Global, The Lubrizol Corporation ("Lubrizol"), National Association of State Boards of Accountancy ("NASBA"), and Reznick Group, P.C.

³¹ See, *e.g.*, Boeing, FPL Group, Inc., and Kohl's Corporation.

³² See, *e.g.*, AICPA, Alcoa, Association of Chartered Certified Accountants, California Society of Certified Public Accountants, Center for Audit Quality, IBM Corporation, and The Ohio Society of CPAs.

³³ See, *e.g.*, Aerospace Industries Association and Committee of Annuity Insurers ("CAI").

³⁴ See, *e.g.*, CalPERS, CII, ICGN, ITAC, and S&P.

³⁵ See, *e.g.*, American Insurance Association, CAI, Center for Capital Markets Competitiveness, Dominion Resources Services, Hot Topic Inc., McDonald's Corporation ("McDonald's"), and National Association of Real Estate Investment Trusts.

³⁶ See, *e.g.*, Darden Restaurant, Inc. ("Darden"), McDonald's, and PPL Corporation ("PPL").

³⁷ See, *e.g.*, CMS Energy Corporation and Consumers Energy Company, Darden, Lubrizol, and McDonald's.

³⁸ See, *e.g.*, Darden, Intel Corporation ("Intel"), and MetLife, Inc.

³⁹ See, *e.g.*, CalPERS and S&P.

⁴⁰ See, *e.g.*, CFA, CII, JPMorgan Chase, and The New York State Society of Certified Public Accountants.

⁴¹ See, *e.g.*, CalPERS, ICGN, Intel, ITAC, Northrop Grumman Corporation ("Northrop Grumman"), and S&P.

the global economy as a whole. The current environment has highlighted certain of the existing differences in the accounting standards used in the major capital markets. Some believe that these differences in accounting standards contributed to difficulty in the ability of investors and other stakeholders to assess the financial results of companies operating and competing in the global markets in determining how to allocate capital.⁴² As part of the G-20's efforts to address the economic crisis, it specifically requested that accounting bodies redouble their efforts to achieve a single set of high-quality, global accounting standards through their independent standard-setting processes and complete their convergence project by 2011.⁴³

The Commission's statutory mandate with respect to determining the accounting standards to be used in the United States requires it to promote full, fair, and reliable disclosure for the protection of U.S. investors.⁴⁴ The U.S. capital markets are among the largest and most liquid in the world. We believe that the acceptance, comprehensiveness, reliability, and enforceability of U.S. GAAP are important reasons for the pre-eminence of our capital markets. U.S. GAAP is a well-established basis for financial reporting that is applied by all U.S. issuers, many foreign companies and many U.S. private companies. Preparers and users of financial statements, such as investors and analysts, are familiar with U.S. GAAP. Thus, we acknowledge the magnitude of the task that would be involved to incorporate IFRS into our financial reporting environment for U.S. issuers. It is therefore important that, before we mandate any such change, careful consideration and deliberation, as well as a sufficient transition time for users and preparers of financial statements, occur to assure that such a change is in the best interest of U.S. investors and markets.

We have considered carefully the input contained in the comment letters we received. We believe that a more comprehensive work plan is necessary to lay out transparently the work that must be done to support our decision on the appropriate course to incorporate IFRS into the U.S. financial reporting system for U.S. issuers, including the

scope, timeframe, and methodology for any such transition. Toward this end, we have directed the staff of the Office of the Chief Accountant, with appropriate consultation with other Divisions and Offices of the Commission, to develop and carry out the Work Plan. The Work Plan accompanies this statement as an appendix.

The Work Plan sets forth specific areas and factors for the staff to consider before potentially transitioning our current financial reporting system for U.S. issuers to a system incorporating IFRS. Specifically, the Work Plan addresses areas of concern that were highlighted by commenters, including:

- Sufficient development and application of IFRS for the U.S. domestic reporting system;
- The independence of standard setting for the benefit of investors;
- Investor understanding and education regarding IFRS;
- Examination of the U.S. regulatory environment that would be affected by 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 litigation contingencies; and
- Human capital readiness.

The staff will provide public progress reports on the Work Plan beginning no later than October 2010 and frequently thereafter until the work is complete. The Work Plan is designed to provide the Commission the information it needs to evaluate the implications of incorporating IFRS into the U.S. domestic reporting system. Following successful completion of the Work Plan and the FASB-IASB convergence projects according to their current work plan, the Commission will be in a position in 2011 to determine whether to incorporate IFRS into the U.S. domestic reporting system.

Commenters on the Proposed Roadmap expressed a view that U.S. issuers would need approximately four to five years to successfully implement a change in their financial reporting systems to incorporate IFRS.⁴⁵ Therefore, assuming that the Commission determines in 2011 to incorporate IFRS into the U.S. domestic reporting system, we believe that the first time U.S. issuers would report under such a system would be approximately 2015 or 2016. We have

asked the staff as part of the Work Plan to further evaluate this timeline.

IV. Summary of the Key Areas of the Work Plan

The Commission staff will analyze each of the six areas identified in its Work Plan, as discussed further below. The first two areas consider characteristics of IFRS and its standard setting that would be the most relevant to a future determination by the Commission regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. The remaining four areas relate to transitional considerations that will enable the Staff to better evaluate the scope of, timing of, and approach to changes that would be necessary to effectively incorporate IFRS into the financial reporting system for U.S. issuers, should the Commission determine in the future to do so.

While an ultimate determination of any specific methods (*e.g.*, convergence, standard-by-standard adoption, wholesale adoption) or dates for the possible incorporation of IFRS into the financial reporting system for U.S. issuers is beyond the scope of the Work Plan, the information obtained through the Work Plan will facilitate future Commission consideration of those matters. The Work Plan provides additional detail about the analysis that the staff will perform in each of these six areas.

A. Sufficient Development and Application of IFRS for the U.S. Domestic Reporting System

As described in the 2000 Concept Release, the Commission's efforts to support a globally accepted high-quality financial reporting framework have been guided by its mission of protecting investors, maintaining fair, orderly, and efficient capital markets, and facilitating capital formation.⁴⁶ A necessary element for a set of global accounting standards to meet these objectives is that they must be high quality, consisting of a "comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions."⁴⁷ The Commission continues to believe that high-quality global accounting standards "must be supported by an infrastructure that ensures that the standards are rigorously

⁴² See "Report of the Financial Crisis Advisory Group" (July 28, 2009). (available at: <http://www.iasb.org/NR/rdonlyres/2D2862CC-BEFC-4A1E-8DDC-F159B78C2AA6/0/FCAGReportJuly2009.pdf>)

⁴³ See "Leaders' Statement from the Pittsburgh Summit" (September 24-25, 2009). (available at: http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf)

⁴⁴ See 2003 Policy Statement.

⁴⁵ See, *e.g.*, Boeing, Northrop Grumman, PepsiCo, Inc., and tw telecom inc.

⁴⁶ See 2000 Concept Release.

⁴⁷ See 2000 Concept Release, at IIA.

interpreted and applied”⁴⁸ both within and outside the United States.

The increasing acceptance and use of IFRS in major capital markets throughout the world over the past several years, and its anticipated use in other countries in the near future, demonstrate that IFRS has the greatest potential to provide a common platform for capital markets regulators. The IASB has made significant progress in developing high-quality accounting standards, as noted in the 2007 Adopting Release.⁴⁹ However, as the Commission noted in the Proposed Roadmap, there are areas where completion of the IASB’s standard-setting initiatives, including those included in its convergence agenda with the FASB, should improve and further develop IFRS.⁵⁰ The successful completion of these efforts would be a significant accomplishment toward improving financial reporting for investors worldwide. In addition, the Commission in the Proposed Roadmap stated that, in further considering IFRS, it would “consider whether those accounting standards are of high quality and sufficiently comprehensive.”⁵¹ As part of the staff’s efforts under the Work Plan, the staff will evaluate the IASB’s efforts to improve IFRS, including through those joint IASB–FASB projects scheduled to be completed in 2011.

1. Comprehensiveness

In the Proposed Roadmap, the Commission stated that “IFRS is not as developed as U.S. GAAP in certain areas.”⁵² For example, IFRS does not provide broad guidance for certain topical areas, such as accounting for certain common control transactions, recapitalization transactions, reorganizations, and acquisitions of minority shares not resulting in a change of control and similar transactions.⁵³ IFRS also lacks guidance for certain broad industries, including those the IASB is currently developing related to utilities, insurance, extractive activities, and investment companies.⁵⁴ As part of the Work Plan, the staff will assess the overall level of comprehensiveness of IFRS.

2. Auditability and Enforceability

The Proposed Roadmap noted the challenges that can exist with IFRS’s less prescriptive guidance. Commenters on the Proposed Roadmap raised several

concerns regarding the auditability and enforceability of IFRS, including the risk of opportunistic accounting; diminished comparability; and the potential for accounting conclusions of preparers to be unfairly criticized by auditors, regulators, and investors.

The auditability and enforceability of a set of accounting standards are essential aspects of investor protection. Under the Work Plan, the staff will analyze factors that may influence the auditability and enforceability of financial statements prepared under IFRS.

3. Consistent and High-Quality Application

The Commission has based its continued strong support for a single set of high-quality globally accepted accounting standards, including the consideration of incorporating IFRS into its financial reporting system, on the premise that U.S. investors ultimately will benefit from the comparability of financial information from issuers on a worldwide basis. Consistent and high-quality implementation is necessary for investors to benefit from a set of high-quality global accounting standards.⁵⁵ To assess the consistent and faithful application of IFRS, the staff will analyze the factors that may influence the degree of comparability of financial statements prepared under IFRS on a global basis and their consequences in practice. The staff also will assess the relative effect on comparability of financial reporting in the United States, if IFRS were incorporated into the financial reporting system for U.S. issuers.

B. The Independence of Standard Setting for the Benefit of Investors

Another important element for a set of high-quality global accounting standards is whether the accounting standard setter’s funding and governance structure support the independent development of accounting standards for the ultimate benefit of investors. This is an area of significant concern to the investors and investor groups that commented on the Proposed Roadmap.⁵⁶ The Work Plan includes an ongoing review of the functioning of the IASB’s governance structure and developments to secure a stable, broad-

based source of funding.⁵⁷ This review will help the staff assess whether these factors promote standard setting that is accountable, independent, and free from undue influence that could affect the ability of U.S. investors to receive full, fair, and reliable disclosure. Full, fair, and reliable disclosure is essential to facilitate the meaningful comparison of financial information across national borders.

C. Investor Understanding and Education Regarding IFRS

The Commission’s Proposed Roadmap reflects its belief that U.S. investors would benefit from the use of a single set of high-quality accounting standards that are used consistently in the global capital markets. In the Proposed Roadmap, the Commission stated that a single set of global accounting standards could enhance the ability of investors to compare financial information of U.S. companies with that of non-U.S. companies. Improved comparability was the most commonly cited reason commenters believed that U.S. capital markets would benefit from the use of a single set of global accounting standards.⁵⁸ Because the benefits of adopting a single set of high-quality globally accepted accounting standards would be realized only if investors understood and had confidence in the financial reporting system, the Commission believes that in order to assess incorporation of IFRS into the U.S. financial reporting system, further work is necessary to assess investor understanding and education regarding IFRS. The staff’s performance of the steps in the Work Plan should provide the staff with insight into investors’ understanding of IFRS and actions that

⁵⁷ The IASB, an accounting standard-setting body based in London, was established to develop global standards for financial reporting. The IASB is overseen by the IFRS Foundation (formerly called the “IASC Foundation”; this organization has been renamed as a result of recent amendments to its Constitution, effective March 1, 2010). The IFRS Foundation is responsible for the activities of the IASB. While national accounting standard setters traditionally have been accountable to a national securities regulator or other government authority, until 2009, the IFRS Foundation did not have a formal link with any national securities regulators. Recognizing that a relationship with national securities regulators would enhance the public accountability of the IFRS Foundation, its trustees agreed on amendments to its Constitution to establish a link between the IFRS Foundation and a Monitoring Board composed of public capital markets authorities, including the Commission, charged with the adoption or recognition of accounting standards used in their respective jurisdictions. For further information on the governance structure and operation of the IASB, see <http://www.iasb.org>.

⁵⁸ See, e.g., AICPA, FEE, PPL, and TransCanada Corporation.

⁴⁸ *Id.* See also 2007 Concept Release.

⁴⁹ See 2007 Adopting Release.

⁵⁰ See Proposed Roadmap.

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ See, e.g., comment letters from Maverick Capital, CIL, and CFA on the proposing release: *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP*, Release No. 33–8818 (July 2, 2007) [72 FR 37962 (July 11, 2007)].

⁵⁶ See, e.g., comment letters from CalPERS and CFA.

need to be taken to increase investors' understanding.

D. Examination of the U.S. Regulatory Environment That Would Be Affected by a Change in Accounting Standards

The Commission acknowledges that the incorporation of IFRS into the financial reporting system for U.S. issuers could have far-reaching effects on financial reporting by U.S. issuers for other purposes. In addition to filing financial statements with the Commission, U.S. issuers commonly provide financial information to a wide variety of other parties for different purposes. While the federal securities laws provide the Commission with the authority to prescribe accounting principles and standards to be followed by public companies and other entities that provide financial information to the Commission and investors, the Commission does not directly prescribe the provision and content of information that U.S. issuers provide to parties other than it and investors.⁵⁹ However, changes to the Commission's accounting standards could affect issuers and the information they provide to regulatory authorities and others that rely on U.S. GAAP as a basis for their reporting regimes.⁶⁰ In accordance with the Work Plan, the staff will study and consider other regulatory effects of mandating IFRS for U.S. issuers.

E. The Impact on Issuers, Both Large and Small, Including Changes to Accounting Systems, Changes to Contractual Arrangements, Corporate Governance Considerations, and Litigation Contingencies

In considering incorporation of IFRS into the U.S. financial reporting system, the Commission must assess the significant effects that such changes would have on the preparers of financial statements—the thousands of companies that file financial statements with the Commission under the federal securities laws. In addition to the significant effects that a transition would have on investors, the issuers of financial statements would incur costs, effort, and time as a result of a transition. Smaller companies and those

without international operations will bear those costs and efforts differently than larger companies and those that compete globally. As part of the Work Plan, the staff will consider the impact of the logistical changes involved in incorporating IFRS into the U.S. financial reporting system. The extent of that impact may be decreased by ongoing convergence efforts between the IASB and the FASB.

F. Human Capital Readiness

As contemplated by the Proposed Roadmap, incorporation of IFRS would require consideration of the readiness of all parties involved in the financial reporting process, including investors, preparers, auditors, regulators, and educators. As a result, any change involving the incorporation of IFRS into the financial reporting system for U.S. issuers would require greater familiarity of IFRS for investors, preparers, auditors, regulators, academics, and many others. Under the Work Plan, the staff will review the effect of the incorporation of IFRS on the education and training of professionals involved in the financial reporting process as well as any impact on auditor capacity.

V. Potential Transition Matters

Many commenters on the Proposed Roadmap expressed concern about having appropriate transition time to plan for and implement any changes that would be needed in connection with a further move toward incorporation of IFRS in domestic financial reporting.⁶¹ Commenters also indicated that the Proposed Roadmap had created a significant amount of uncertainty for market participants about how any proposed changes would affect them and whether they should begin immediately to allocate resources to prepare for use of IFRS.⁶²

We acknowledge that the changes to our current financial reporting system that would be necessary to transition to a single set of global accounting standards, including the incorporation of IFRS for U.S. issuers, could represent a fundamental change that would require significant transition time and effort for issuers, investors, and others. Several steps in the Work Plan, including progress toward completion of convergence, focus on providing the Commission with additional information about the magnitude of these changes and the logistics necessary for implementing them. This information will enable the Commission

to consider the plans that would need to be implemented in a move to incorporate IFRS into the financial reporting system for U.S. issuers, including providing sufficient time to efficiently and effectively implement any changes in accounting standards.

The Proposed Roadmap proposed to allow certain large U.S. issuers the option of preparing their financial statements using IFRS beginning with filings for fiscal years ending on or after December 15, 2009. A significant group of commenters disagreed with an early use option, generally because of the increased complexity, lack of comparability between U.S. issuers under a dual system, and the possibility of companies opportunistically selecting which system of accounting standards to apply.⁶³ Alternative strategies proposed by this group varied widely, and included the optional use of IFRS during any contemplated transition period to a single set of global accounting standards.⁶⁴ Some commenters suggested an open option for all issuers or, at least, a significantly expanded group of issuers.⁶⁵

The Commission is not foreclosing the possibility in the future that issuers may be permitted to choose between IFRS and U.S. GAAP, nor is the Commission foreclosing the possibility of some manner of early use or adoption approach. The conditions for early adoption, however, would depend on the overall approach to incorporate IFRS into the U.S. financial reporting system for U.S. issuers. As that overall approach remains under evaluation, we are not actively pursuing rulemaking to provide for an early use option at this time.⁶⁶

VI. Role of the FASB

The FASB is the independent, private-sector accounting standard-setting body for the United States. Since 1973, the Commission has recognized the FASB's pronouncements establishing and amending accounting principles as "authoritative" and "generally accepted" for purposes of the federal securities laws, absent any contrary determination by the Commission.⁶⁷ After enactment of the

⁵⁹ *Id.*

⁶⁰ *Id.* For example, U.S. issuers often provide U.S. GAAP-based financial information to various federal and state regulators, including regulators of financial institutions, insurance companies and public utilities. Another example of the effect on reporting to others relates to federal and state income taxes. Existing U.S. GAAP is the predominant set of accounting standards used in the United States, and the Internal Revenue Code has developed over time in reliance on such accounting standards.

⁶¹ *See, e.g.,* AICPA, Cymer, Inc., and Graybar.

⁶² *See, e.g.,* Best Buy Co., Inc., Cisco Systems, Inc., and Fannie Mae.

⁶³ *See, e.g.,* CalPERS, CFA, CII, ICGN, and ITAC.

⁶⁴ *See, e.g.,* Ernst & Young LLP and PwC.

⁶⁵ *See, e.g.,* Abbott, AICPA, and S&P.

⁶⁶ Accordingly, we are withdrawing the proposed rules for limited early use of IFRS by certain U.S. issuers.

⁶⁷ *See Statement of Policy on the Establishment and Improvement of Accounting Principles and Standards*, Accounting Series Release No. 150 (December 20, 1973) (expressing the Commission's intent to continue to look to the private sector for leadership in establishing and improving

Act, the Commission reaffirmed the recognition of the financial accounting and reporting standards of the FASB as "generally accepted" for purposes of the federal securities laws.⁶⁸

Some commenters believed the lack of clarity in the Proposed Roadmap regarding the future role of the FASB has created unnecessary uncertainty. Commenters offered divergent opinions about whether the Commission should maintain a relationship with the FASB as the U.S. national accounting standard setter in lieu of directly relying on the IASB.⁶⁹

We believe the FASB will continue to play a critical and substantive role in achieving the goal of global accounting standards. The FASB is the accounting standard setter for the U.S. capital markets, and it should continue to work with the IASB to improve accounting standards. Moreover, that role would remain critical after adoption of global standards. In this regard, we have considered the role that other national

standard setters have maintained in connection with their consideration of IFRS. In particular, one organization with national regulatory responsibilities noted in its comment letter on the Proposed Roadmap that the continued existence of a national standard setter allows for more effective working relationships with the IASB and helps the IASB have an effective dialogue with constituents in that country.⁷⁰ We note many developed countries have maintained a national standard setter or other mechanisms in connection with the incorporation of IFRS into their capital markets.⁷¹

As part of the staff's execution of the Work Plan, it will continue to analyze the nature of the appropriate and ongoing role of the FASB should IFRS be incorporated into the U.S. financial reporting system for U.S. issuers.

VII. Regulatory Requirements

This statement is not an agency rule requiring notice of proposed

rulemaking, opportunities for public participation, and prior publication under the provisions of the Administrative Procedure Act ("APA"). Similarly, the provisions of the Regulatory Flexibility Act, which apply only when notice and comment are required by the APA or another statute, are not applicable.

Dated: February 24, 2010.

By the Commission.

Elizabeth M. Murphy,
Secretary.

Work Plan for the Consideration of Incorporating International Financial Reporting Standards Into the Financial Reporting System for U.S. Issuers

Office of the Chief Accountant United States Securities and Exchange Commission

This is a report by the Staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

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accounting principles and standards through the FASB) and the 2003 Policy Statement.

⁶⁸ See 2003 Policy Statement.

⁶⁹ NASBA and CalPERS expressed the view that the Commission should maintain a relationship with the FASB, whereas KPMG LLP expressed the

view that the Commission should recognize the IASB as the single accounting standard setter.

⁷⁰ See U.K. Financial Reporting Council.

⁷¹ For example, the European Union ("EU"), which required the use of IFRS as the accounting standards for companies incorporated in one of its

Member States and whose securities are listed on an EU-regulated market beginning with their 2005 financial year, uses the European Financial Reporting Advisory Group to provide technical advice to the European Commission in connection with the EU's mechanism for endorsement of IFRS.

Background

In the 2010 Statement,⁷² the U.S. Securities and Exchange Commission (“SEC” or “Commission”) directs the staff of the Office of the Chief Accountant of the SEC, with appropriate consultation with other Divisions and Offices of the Commission (collectively, the “Staff”), to develop and execute a work plan (“Work Plan”). The purpose of the Work Plan is to consider specific areas and factors relevant to a Commission determination of whether, when, and how our current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting Standards (“IFRS”).⁷³ Specifically, the Work Plan addresses areas of concern that were highlighted by commenters on the Commission’s proposed *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*,⁷⁴ including:

1. Sufficient development and application of IFRS for the U.S. domestic reporting system;
2. The independence of standard setting for the benefit of investors;
3. Investor understanding and education regarding IFRS;
4. Examination of the U.S. regulatory environment that would be affected by a change in accounting standards;
5. The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies; and
6. Human capital readiness.

The first two areas above consider characteristics of IFRS and its standard setting that would be the most relevant to a future determination by the Commission regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. The remaining four areas above relate to transitional considerations that will enable the Staff to better evaluate the scope of, timing of, and approach to changes that would be necessary to effectively incorporate IFRS into the financial reporting system for U.S. issuers, should the Commission determine in the future to do so.

In formulating this initial Work Plan, the Staff considered commenters’ views that U.S. issuers would need approximately four to five years to successfully implement a change in their financial reporting systems to incorporate IFRS.⁷⁵ Therefore, assuming that

the Commission determines in 2011 to incorporate IFRS into the U.S. financial reporting system, the first time U.S. issuers would report under such a system would be approximately 2015 or 2016. The Staff will further evaluate this timeline as a part of the Work Plan.

While an ultimate determination of any specific methods (e.g., convergence, standard-by-standard adoption, wholesale adoption) or dates for the possible incorporation of IFRS into the financial reporting system for U.S. issuers is beyond the scope of the Work Plan, the information obtained through the Work Plan will facilitate future Commission consideration of those matters. Further, while the Work Plan focuses on the implications of incorporation of IFRS into the financial reporting system for U.S. issuers on U.S. constituents, the Staff also will consider the effects of its recommendations to the Commission on other jurisdictions that have incorporated or have committed to incorporate IFRS into their financial reporting systems.

Each area is important to the Staff’s consideration of the most effective approach to advance the Commission’s objective of achieving a single set of high-quality globally accepted accounting standards. The Staff, however, did not develop the Work Plan with the intention that any one step is individually determinative of the optimal path forward. Further, for many of the steps, the Staff is seeking to assess the degree to which a particular attribute or condition exists for consideration of how the topic interacts with policy considerations. The Staff does not view the objective of its efforts as being to determine whether an attribute “passes” or “fails” a pre-determined standard.

The Staff has developed this Work Plan based on its understanding of the current environment. The Staff intends to continually re-assess this Work Plan and adjust it as new information is obtained or developments occur. Further, of necessity, the Staff will modify this Work Plan in response to constraints encountered, such as limited availability of information, with the intention of accomplishing each section’s stated objective to the maximum extent possible.

In executing this Work Plan, the Staff will gather information using a variety of methods, including, but not limited to, performing its own research; seeking comment from, holding discussions with, and analyzing information from constituents, including investors, issuers, auditors, attorneys, other regulators, standard setters, and academics; considering academic research; and researching the experiences of other jurisdictions that have incorporated or have committed to incorporate IFRS into their financial reporting systems and foreign private issuers who currently report under

comments/s7-27-08/s72708.shtml). Comments are also available for Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Unless otherwise noted, comment letters referenced in this Work Plan were submitted in response to the Proposed Roadmap and are cited by author.

IFRS. The Staff will provide public progress reports beginning no later than October 2010 and frequently thereafter until the work is complete.

I. Sufficient Development and Application of IFRS for the U.S. Domestic Reporting System

A. Introduction

The 2010 Statement notes that “[a] necessary element for a set of global accounting standards to meet [the agency’s mission] is that they must be high-quality * * *.” The Commission previously has described high-quality standards as consisting of a “comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions.”⁷⁶ The Commission also has expressed its belief that high-quality accounting standards “must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied.”⁷⁷

In the Proposed Roadmap, the Commission stated that, in further considering IFRS, it would “consider whether those accounting standards are of high-quality and sufficiently comprehensive.” Accordingly, the Staff believes that an evaluation of whether IFRS is sufficiently developed and applied to be the single set of globally accepted accounting standards for U.S. issuers requires consideration of the following areas:

- The comprehensiveness of IFRS;
- The auditability and enforceability of IFRS; and
- The comparability of IFRS financial statements within and across jurisdictions.

As the Commission noted in the Proposed Roadmap, there are areas where completion of the IASB’s standard-setting initiatives, including those included in its convergence agenda with the Financial Accounting Standards Board (“FASB”), as discussed in the 2010 Statement, should improve and further develop IFRS. The Commission further notes in the 2010 Statement, “[t]he successful completion of these efforts would be a significant accomplishment toward improving financial reporting for investors worldwide.” As such, the Staff’s efforts in the above areas will include consideration of the IASB’s efforts to improve IFRS.

B. Comprehensiveness of IFRS

The Commission stated in the Proposed Roadmap that “IFRS is not as developed as [U.S. generally accepted accounting principles (“U.S. GAAP”)] in certain areas.” This is due, in part, to IFRS’s relative youth, as articulated by one commenter:

“[W]e are concerned about quality and maturity of IFRS in comparison to * * * [U.S. GAAP]. U.S. GAAP has a long history and has been tested and refined through multiple and complex economic events and developments. Many of the standards in U.S. GAAP have emerged as a direct result of circumstances and events that demonstrated

⁷⁶ *International Accounting Standards*, Release No. 33–7801 (February 16, 2000) [65 FR 8896 (February 23, 2000)] (“2000 Concept Release”).

⁷⁷ 2000 Concept Release.

⁷² See *Commission Statement in Support of Convergence and Global Accounting Standards*, Release No. 33–9109 (February 24, 2010) (“2010 Statement”).

⁷³ Hereafter, the term “IFRS” refers to “IFRS as issued by the International Accounting Standards Board (“IASB”)” unless otherwise noted.

⁷⁴ Release No. 33–8982 (November 14, 2008) [73 FR 70816 (November 21, 2008)] (“Proposed Roadmap”).

⁷⁵ See, e.g., The Boeing Company (“Boeing”), Northrop Grumman Corporation (“Northrop Grumman”), PepsiCo, Inc. (“Pepsi”), and tw telecom inc (“tw telecom”). Comment letters in response to the Proposed Roadmap are available on the Commission’s Web site (at <http://www.sec.gov/>

the need for better and more transparent financial reporting (for example, the rise of derivative instruments and recent financial scandals such as the collapse of Enron)

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The Commission and commenters have noted limited IFRS guidance in two respects. First, IFRS lacks broad guidance for: (1)

Certain topical areas, such as accounting for certain common control transactions, recapitalization transactions, reorganizations, acquisitions of minority shares not resulting in a change of control and similar transactions, and the push down of a new accounting basis in an entity's separate financial statements; (2) certain industries, such as those related to utilities, insurance, extractive activities, and investment companies; and (3) disclosures in order to provide better transparency regarding the application of accounting principles.⁷⁹

Second, where IFRS provides broad guidance, the IASB, as a matter of operating practice, has elected to make guidance less detailed and prescriptive than U.S. GAAP.⁸⁰ Commenters' views were mixed as to whether the lesser degree of detailed guidance under IFRS, as compared to U.S. GAAP, is indicative of a higher quality set of accounting standards. Commenters who preferred IFRS's approach asserted that it is less complex than U.S. GAAP and allows companies to capture the substance of transactions.⁸¹ On the other hand, commenters who preferred U.S. GAAP's approach expressed that IFRS relies too much on management discretion, thereby increasing the potential for opportunistic accounting; creating challenges for auditors, as discussed in section I.C below; and reducing comparability, as discussed in section I.D below.⁸²

⁷⁸ CMS Energy Corporation and Consumers Energy Company. *See also, e.g.*, FedEx Corporation, Hess Corporation, Honeywell International ("Honeywell"), Northrop Grumman, and Andra Psoras ("Psoras").

⁷⁹ *See, e.g.*, Proposed Roadmap. *See also, e.g.*, Financial Accounting Foundation ("FAF"), Investors Technical Advisory Committee ("ITAC"), Liberty Global, and Standard & Poor's Ratings Services. The Staff acknowledges that in certain of these specified areas, these concerns are equally applicable to U.S. GAAP.

⁸⁰ *See, e.g.*, Proposed Roadmap. *See also, e.g.*, Accretive Solutions, First Commonwealth Financial Corporation ("First Commonwealth"), and ITAC.

For example, as the FASB staff discussed in "Board Meeting Handout: Joint Revenue Recognition Project" (April 9, 2008) (available at: http://www.fasb.org/04-09-08_rev.pdf), revenue recognition guidance under U.S. GAAP (prior to the FASB Codification) consisted of over 200 pieces of literature from various sources, whereas revenue recognition guidance under IFRS "lacks explicit measurement guidance. Although such measurement guidance exists in abundance in U.S. GAAP, IFRS suffers from the opposite extreme."

⁸¹ *See, e.g.*, Alcoa Inc. ("Alcoa"), The Bank of New York Mellon, Federation of European Accountants ("FEE"), Institute of Chartered Accountants in England and Wales ("ICAEW"), and Gregory Misiorek.

⁸² *See, e.g.*, First Commonwealth, Fund of Stockowners Rights ("Fund Stockowners Rights"), State of New York Banking Department ("NYBD"), Psoras, Sanctuary Financial Group, Inc., and tw telecom.

Other commenters have argued, however, that this debate may not be relevant in the U.S. environment. For example, the FAF asserted in its comment letter that:

"[W]hile it is perceived that IFRS provides financial statement preparers more discretion in application than U.S. GAAP, such additional discretion may not result in major differences in the application of IFRS by U.S. companies because the U.S. institutional framework plays a major role in shaping how companies would apply the discretion."

The Staff will analyze for the Commission's benefit the extent to which IFRS is comprehensive so as to support a Commission decision regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Inventory areas in which IFRS does not provide guidance or where it provides less guidance than U.S. GAAP.

- Analyze how issuers, auditors, and investors currently manage these situations in practice.

- Identify areas in which issuers, auditors, and investors would most benefit from additional IFRS guidance.

C. Auditability and Enforceability

IFRS's less detailed and prescriptive guidance may or may not create challenges in its auditability and enforceability. If it were to do so, IFRS may "[make] litigation or enforcement outcomes more difficult to predict."⁸³ This outcome may be true not only within jurisdictions, but also across jurisdictions, as the existence of differing regulatory regimes and legal environments across jurisdictions may exacerbate the inconsistent interpretation and enforcement of IFRS. For example, the CFA Institute stated the following in its comment letter:

"Investors need greater assurance regarding the divergence of application within the principles-based standards of IFRS prior to adoption. Conversion to more principles-based standards that are applied inconsistently in different regulatory environments, auditing regimes and cultures may not be beneficial to investors."

Commenters raised several concerns regarding the auditability and enforceability of IFRS, including the risk of opportunistic accounting; the potential for accounting conclusions of preparers to be unfairly criticized by auditors, regulators, and investors; and diminished comparability.

First, regarding the risk of opportunistic accounting, some commenters expressed that IFRS allows for increased flexibility, as compared to U.S. GAAP, and may result in standards being less auditable and enforceable, which would not be in the public interest.⁸⁴ For example, one commenter stated:

"The international standards (IFRS) are widely viewed as less specific and providing less prescriptive guidance than U.S. GAAP (*i.e.*, IFRS are more principles based), as well

⁸³ Proposed Roadmap.

⁸⁴ *See, e.g.*, Fund Stockowners Rights, National Association of State Boards of Accountancy ("NASBA"), and Psoras.

as more subjective primarily due to more use of fair value measurements. The downgrading of verifiability as a key concept guiding accounting standard setting and the resulting focus on fair value measurement significantly impairs the ability of an auditor to limit opportunistic actions of management and improve financial reporting."⁸⁵

Second, regarding the potential for accounting conclusions of preparers to be unfairly criticized by auditors, regulators, and investors, some commenters have expressed concerns that IFRS's less detailed and prescriptive guidance could expose companies to increased claims by shareholders and others seeking to challenge its application, given the perceived litigious environment in the United States.⁸⁶ The Staff has acknowledged similar concerns in the context of an objectives-oriented system, noting:

"We believe that the existence of a strong and consistently applied enforcement mechanism is a necessary component to the success of an objectives-oriented system. Preparers and auditors have expressed concern that those charged with enforcement in a principles-based environment will question reasonable judgments made in good faith (footnote omitted). In fact, some have asked whether the Commission staff would be willing to accept reasonable views and interpretations by preparers and auditors in the application of accounting principles (citation omitted)."⁸⁷

However, the Staff also stated:

"We believe * * * that the concern over litigation uncertainty is sometimes overstated * * *. If preparers and auditors maintain contemporaneous documentation that demonstrates that they properly determined the substance of a covered transaction or event, applied the proper body of literature to it, had a sound basis for their conclusions—particularly those involving the exercise of judgment—and ensured through disclosure that their method was transparent, their exposure to litigation may be reduced."⁸⁸

Some commenters stated that the U.S. legal system, which relies, to a larger extent, on guidance, rules, and bright lines, ultimately will drive IFRS to evolve, similar to U.S. GAAP, into a rules-based set of standards.⁸⁹ Accordingly, commenters advocated addressing the causes of rules-based standards, such as through changes to the U.S. legal and regulatory environment, and development of an accounting and auditing judgment framework to reassure issuers that

⁸⁵ American Accounting Association, Financial Accounting Standards Committee ("AAA-FASC").

⁸⁶ *See, e.g.*, FPL Group, Inc. ("FPL") and tw telecom.

⁸⁷ Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System" (July 25, 2003) ("Principles-Based Accounting System Study").

⁸⁸ Principles-Based Accounting System Study.

⁸⁹ *See, e.g.*, Air Products and Chemicals, Inc. ("Air Products"), Community Health Systems, Inc. ("Community Health"), JPMorgan Chase ("JP Morgan"), The London Centre for International Corporate Governance Law ("London Ctr Int'l Corp Gov Law"), and Edward Randle.

they will not be penalized for the use of reasonable judgment in the application of IFRS.⁹⁰

The Staff also observed that the exercise of professional judgment in an objectives-oriented regime would require certain cultural changes, including: (1) A reduction in the tendency to ask questions like “where does the literature say I cannot do this,” (2) a reduction in an audit checklist mentality, (3) an improvement in accounting professionals’ understanding of the economic substance of a transaction, and (4) an improvement in the transparency of disclosures.⁹¹

Finally, IFRS’s less detailed and prescriptive guidance, coupled with any diversity of perspectives amongst issuers, auditors, and regulators on a global basis may affect the comparability of financial statements prepared under IFRS. For example, in the auditing context, commenters raised concerns regarding the possibility that each audit firm will develop its own interpretations of IFRS,⁹² resulting in reduced comparability across companies using different auditors. Some commenters went further by echoing concerns raised in the 2007 Concept Release⁹³ that IFRS also may contribute to reduced comparability within audit firms, due to the lack of internationally integrated accounting firms with a single global accounting perspective.⁹⁴

Similarly, commenters expressed concern that differing regulation and enforcement structures and practice on a global basis may undermine the comparability of financial statements prepared under IFRS.⁹⁵ The Commission has noted that securities regulators have developed and continue to improve infrastructure to foster the consistent and faithful application and enforcement of IFRS around the world.⁹⁶ For example, in January 2007, an International Organization of Securities Commissions (“IOSCO”) database for cataloguing and sharing securities regulators’ experiences on IFRS application around the world became

operational.⁹⁷ Further, the Commission and the Committee of European Securities Regulators (“CESR”) published a work plan in August 2006, covering information sharing in regular meetings and the confidential exchange of issuer-specific information.⁹⁸ In addition to the coordination with organizations of securities regulators and under the CESR work plan, the Commission also has developed bilateral dialogues with particular securities regulators to discuss accounting and enforcement matters.

These recent developments were noted by the CFA Institute in its comment letter:

“[T]his coordinated effort and related processes [by members of IOSCO] are still being developed and the overall effectiveness of their regulatory oversight has not been fully demonstrated (*i.e.*, that the interpretation and enforcement of IFRS is consistent). The SEC should focus on how IFRS is being applied and ensure that studies about this are undertaken and widely circulated to all interested parties.”

The Staff believes that the auditability and enforceability of financial statements prepared under IFRS is a key component in considering whether to incorporate IFRS into the financial reporting system for U.S. issuers. Accordingly, the Staff intends to gather data to inform the Commission in this regard. Specifically, the Staff will:

- Analyze factors that may influence the auditability of financial statements prepared under, and the enforceability of, IFRS.
- Evaluate factors that may influence the consistent audit of financial statements prepared under, and the enforcement of, IFRS.
- Identify potential changes to improve the auditability and enforceability of financial statements prepared under IFRS and to facilitate their consistent audit and enforcement.

D. Comparability Within and Across Jurisdictions

One of the primary benefits of a single set of global accounting standards is increased comparability of financial statements.

However, as the Proposed Roadmap stated:

“The advantages to U.S. investors of increased comparability across investment alternatives, as contemplated under this Roadmap, are dependent upon financial reporting under IFRS that is, in fact, consistent across companies, industries and countries.”

A number of factors may undermine the comparability of IFRS financial statements. As discussed above, the lesser degree of comprehensiveness and the challenges of consistent audit and enforcement of IFRS financial statements may affect their comparability. In addition, jurisdictional variations in the application of IFRS, the optionality within IFRS, and inconsistencies arising from differences in the translation of IFRS also may reduce the benefits of IFRS as a single set of global accounting standards.⁹⁹

Some sources indicate that more than 100 countries “require or allow the use” of

IFRS.¹⁰⁰ At the same time, there is the real possibility of jurisdictional variations, which could undermine comparability.

Jurisdictional variations may arise from both authoritative and informal application guidance, changes made to the standards for purposes of use within a jurisdiction, and variations in the times it may take separate jurisdictions to complete their respective processes to enact into law or otherwise adopt new or amended standards. Historical approaches and cultural differences also may give rise to jurisdictional variations.

Commenters frequently cited concerns regarding the existence of and future potential for jurisdictional variations of IFRS.¹⁰¹ Similarly, the Commission noted that “the extent to which IFRS is adopted and applied globally, and whether IFRS is adopted and applied in foreign jurisdictions as issued by the IASB or as jurisdictional variations of IFRS” “may influence the degree to which comparability may be achieved through widespread adoption of IFRS.”¹⁰²

Regarding optionality, the SEC’s Advisory Committee on Improvements to Financial Reporting (“CIFIR”) and others have asserted that IFRS’s permitted alternative accounting treatments in a number of areas “contribute to avoidable complexity by making financial reports less comparable.”¹⁰³

In the Proposed Roadmap, the Commission expressed that:

“IFRS * * * in certain areas permits a greater amount of options than in U.S. GAAP * * * [This] greater optionality in IFRS could reduce comparability of reported financial information, as different issuers may account or provide disclosure for similar transactions or events in different ways[,] but this flexibility also allows a financial statement that may more closely reflect the economics of transactions.”

To counter any diminished comparability, commenters expressed the need for greater transparency around divergence in application.¹⁰⁴ However, as one commenter noted, extensive footnote disclosures explaining how management has applied its discretion “will place the burden upon the user of the financial statements to understand and interpret the differences between companies * * *.”¹⁰⁵

In light of the these concerns, the Staff will analyze for the Commission’s benefit the

⁹⁰ See, e.g., Deloitte Touche Tohmatsu, “Use of IFRSs by Jurisdiction.” (available at: <http://www.iasplus.com/country/useias.htm>)

¹⁰¹ See, e.g., Corporate Roundtable on International Financial Reporting (“CRIFR”), The Davey Tree Expert Company (“Davey Tree”), Institute of Chartered Accountants of Scotland (“ICAS”), KPMG LLP (“KPMG”), The Lubrizol Corporation, McDonald’s Corporation (“McDonald’s”), Mead Westvaco Corporation (“Mead Westvaco”), NASBA, The Travelers Companies, Inc. (“Travelers”), and Tuesday Morning Corporation (“Tuesday Morning”).

¹⁰² Proposed Roadmap.

¹⁰³ “Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission” (August 1, 2008) (“CIFIR Final Report”), page 50. (available at: <http://www.sec.gov/about/offices/ocal/acifir/acifir-finalreport.pdf>)

¹⁰⁴ See, e.g., CFA Institute (“CFA”) and ITAC.

¹⁰⁵ tw telecom.

⁹⁰ See, e.g., American Institute of Certified Public Accountants (“AICPA”), California Society of Certified Public Accountants (“CA CPAs”), Center for Audit Quality (“CAQ”), Deloitte & Touche LLP (“Deloitte”), McGladrey & Pullen LLP (“McGladrey”), Morgan Stanley, NYBD, and The Ohio Society of CPAs (“Ohio CPAs”).

⁹¹ See Principles-Based Accounting System Study.

⁹² See, e.g., Community Health, Eli Lilly and Company (“Eli Lilly”), and Marriott International, Inc. (“Marriott”).

⁹³ In *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards*, Release No. 33-8831 (August 7, 2007) [72 FR 45600 (August 14, 2007)] (“2007 Concept Release”), the Commission stated, “for the U.S. firms that are members of global audit networks, systems of quality control need to foster the high quality and consistent application of IFRS across national borders.”

⁹⁴ See, e.g., London Ctr Int’l Corp Gov Law.

⁹⁵ See, e.g., California Public Employees’ Retirement System (“CalPERS”), Cleary Gottlieb Steen & Hamilton LLP, Group of North American Insurance Enterprises, and International Corporate Governance Network (“ICGN”).

⁹⁶ See 2007 Concept Release.

⁹⁷ See *Id.*

⁹⁸ See *Id.*

⁹⁹ See Proposed Roadmap.

extent to which financial statements prepared under IFRS are comparable within and across jurisdictions so as to support a Commission decision regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze factors that may influence the degree of comparability of financial statements prepared under IFRS on a global basis.
- Assess the extent to which financial statements prepared under IFRS may not be comparable in practice and how investors manage these situations.
- Identify ways to improve the comparability of financial statements prepared under IFRS on a cross-border basis to provide the most benefit for investors.

II. Independent Standard Setting for the Benefit of Investors

A. Introduction

The 2010 Statement notes that “[a]nother important element for a set of high-quality global accounting standards is whether the accounting standard setter’s funding and governance structure support the independent development of accounting standards for the ultimate benefit of investors.” To provide the Commission with the information necessary to determine whether the IASB is sufficiently independent for IFRS to be the single set of high-quality globally accepted accounting standards for U.S. issuers, the Staff will analyze four areas in particular:

- Oversight of the IFRS Foundation (formerly called the “International Accounting Standards Committee (‘IASC’) Foundation”);¹⁰⁶
- Composition of the IFRS Foundation and the IASB;
- Funding of the IFRS Foundation; and
- IASB standard-setting process.

B. Oversight of the IFRS Foundation

The IASB was established to develop global standards for financial reporting.¹⁰⁷ The IASB is overseen by the IFRS Foundation, which is responsible for the activities of the IASB and other work that centers on IFRS, such as initiatives related to translation of IFRS from the English language, education about IFRS, and the development of interactive data taxonomies for IFRS.¹⁰⁸

National accounting standard setters traditionally have been accountable to a national securities regulator or other government authority. In the United States, the FASB is overseen by the Commission.

¹⁰⁶ In January 2010, the IFRS Foundation Trustees (“Trustees”) agreed to a number of changes to their Constitution, including changes to the names of several bodies within the organization, effective March 1, 2010. This Work Plan uses the revised names, except when citing a document issued under the predecessor name. See IASC Foundation, Trustees Announce Further Governance Enhancements (February 15, 2010). (available at: <http://www.iasb.org/News/Press+Releases/further+governance+enhancements.htm>)

¹⁰⁷ For more information on the structure and operation of the IASB, see www.iasb.org.

¹⁰⁸ See Proposed Roadmap.

Until 2009, the IFRS Foundation did not have a similar link with any national securities regulators and public capital market authorities.¹⁰⁹

The Commission has long supported enhanced governance of the IFRS Foundation (and its predecessor, the IASC), which includes independent oversight representing the public interest.¹¹⁰

Recognizing that a relationship with public capital market authorities would enhance the public accountability of the IFRS Foundation, the Trustees amended the IFRS Foundation’s Constitution to establish a connection between the IFRS Foundation and a Monitoring Board¹¹¹ composed of public capital market authorities charged with the adoption or recognition of accounting standards used in their respective jurisdictions.

Commenters noted that recent events have demonstrated the significant pressure that can be exerted on a standard setter and acknowledged that the establishment of the Monitoring Board was an important step in improving the public accountability of the IFRS Foundation.¹¹² However, some commenters suggested improvements to the Monitoring Board¹¹³ and urged that the Monitoring Board should include representatives from the investment community, analysts, auditors, and preparers, as well as national and regional regulators.¹¹⁴ A number of commenters noted

¹⁰⁹ See *Id.*

¹¹⁰ See *Id.*; *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP*, Release No. 33–8879 (December 21, 2007) [73 FR 986 (January 4, 2008)] (“2007 FPI Adopting Release”); 2007 Concept Release; and 2000 Concept Release.

¹¹¹ For more information on the mission, duties, structure, and operation of the Monitoring Board, see “Charter of the IASCF Monitoring Board” (available at: http://www.iasb.org/NR/rdonlyres/28B9BB17-79C8-4623-B043-B15F8D7A774D/0/Monitoring_Board_Charter.pdf) and Memorandum of Understanding To Strengthen the Institutional Framework of the International Accounting Standards Committee Foundation (April 2009) (available at: <http://www.iasb.org/NR/rdonlyres/67B0EE51-56B8-4183-9958-CDAC52BC505C/0/MGMou060409.pdf>).

¹¹² See, e.g., Alcoa, Ernst & Young LLP (“EY”), FEE, U.K. Financial Reporting Council (“FRC”), Potash Corporation of Saskatchewan Inc. (“Potash”), and Securities Industry and Financial Markets Association (“SIFMA”).

¹¹³ See, e.g., Council of Institutional Investors (“CII”) suggested, for example, that the Monitoring Board duties include: (1) explicit responsibility for protecting and defending the independence of the IASB and (2) focus primarily on educating and communicating with the representatives of public authorities about the benefits of independent private-sector standard setting), Institut der Wirtschaftsprüfer in Deutschland (Institute of Public Auditors in Germany) (“IDW”) (suggested the Monitoring Board participate in the appointment process and approve the appointment of Trustees, but not assume responsibility for Trustee appointment directly, so as to avoid overstepping the fine line between oversight and control of the IFRS Foundation).

¹¹⁴ See, e.g., CalPERS, CII, FRC (expressed the view that in due course the IFRS Foundation Monitoring Board should be extended to encompass

that additional time is needed to determine the effect that the Monitoring Board will have on the public accountability of the IFRS Foundation and the IASB.¹¹⁵

The Staff believes that effective oversight is critical to any decision to incorporate IFRS into the financial reporting system for U.S. issuers. The Staff will analyze for the Commission’s benefit the extent to which the Monitoring Board is functioning as designed so as to support a Commission decision regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will analyze the operations of the Monitoring Board and assess any areas for improvement.

C. Composition of the IFRS Foundation and the IASB

The IFRS Foundation is governed by 22 trustees with geographically diverse backgrounds.¹¹⁶ Trustees are appointed for a term of three years that is renewable once.

The IASB is currently composed of 15 full-time members who serve five-year terms subject to one re-appointment.¹¹⁷ Full-time members are required to sever all employment relationships and positions that may give rise to economic incentives that might compromise a member’s independent judgment in setting accounting standards. The IASB members come from ten countries¹¹⁸ and have a variety of backgrounds (e.g., auditors, investors, and preparers). In selecting IASB members, the Trustees must seek an appropriate mix, such that the IASB is not dominated by any particular constituency.

In response to feedback received through its current Constitution review, the IFRS Foundation has approved amendments to its Constitution, which:

- Emphasize the organization’s commitment to developing standards for investors.

official global organizations with a wider range of responsibilities, notably those with financial stability, banking, and insurance mandates, provided that the primary aim of accounting standards to improve information to providers of capital is respected), ICGN, and Nicholas Véron (observed that the current Monitoring Board is badly designed as it excludes important stakeholders. This commenter suggested that the Commission should promote the transformation of the Monitoring Board into a broader body that represents all the stakeholders, especially investor groups).

¹¹⁵ See, e.g., AICPA, Alcoa, Deloitte, Deutsche Bank AG (“Deutsche Bank”), FAF, FEE, FRC, IBM Corporation, ICAEW, IDW, Potash, tw telecom, and XenoPort, Inc. (“XenoPort”).

¹¹⁶ Six of the Trustees must be selected from the Asia/Oceania region, six from Europe, six from North America, one from Africa, one from South America, and two from any region, subject to maintaining overall geographical balance.

¹¹⁷ As a result of changes to the IFRS Foundation’s Constitution in January 2010, second terms will be limited to three years for IASB members not serving as the chair or vice chair. See Trustees Announce Further Governance Enhancements (February 15, 2010). (available at: <http://www.iasb.org/News/Press+Releases/further+governance+enhancements.htm>)

¹¹⁸ As of February 2010.

- Provide for enhanced guidelines regarding the Trustees' geographical diversity.¹¹⁹
- Provide additional guidelines regarding geographical diversity of the IASB members to help ensure that membership of the IASB represents a broad international basis.¹²⁰
- Increase the maximum number of members of the IASB to 16 by July 2012, with up to three positions being permitted for part-time members (There are no part-time members currently).¹²¹

Some commenters argued that all IASB members should be full time—for example, in order to avoid potential conflicts of interest with their outside employers.¹²² Further, these commenters expressed the view that the IASB should include greater representation from investors, as the primary consumers of financial reports.

The Staff believes the composition of the IFRS Foundation and the IASB affects the independence of the IASB's standard-setting process. The Staff will analyze for the Commission's benefit the extent to which the composition of the IFRS Foundation and the IASB promotes the independent development of accounting standards for the ultimate benefit of investors so as to support a Commission decision regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will analyze the changes to the composition of the IFRS Foundation and the IASB and their effect on the IASB's ability to independently develop accounting standards for the ultimate benefit of investors.

D. Funding of the IFRS Foundation

Until 2008, the IFRS Foundation financed IASB operations largely through voluntary contributions from a wide range of market participants from across the world's capital markets, including from a number of firms in the accounting profession, companies, international organizations, central banks, and governments. Funding commitments were made for the period 2001–2005 and then were extended for an additional two years through 2007. In June 2006, the Trustees agreed on four characteristics¹²³ that should govern the establishment of a funding approach designed to enable the IFRS Foundation to remain a private-sector organization with the necessary resources to conduct its work in a timely fashion. The IFRS Foundation has no authority to impose

funding regimes on countries, but the Trustees have worked closely with regulatory and other public authorities and key stakeholder groups on the creation of national regimes. Since 2008, efforts to change the financing basis of the IFRS Foundation have continued. Most funds are now obtained on a national basis from national standard setters and national capital market authorities.¹²⁴ The number of narrowly-based voluntary regimes is decreasing. Contributions from the major accounting firms also are decreasing.

The Commission previously has expressed concern that the IASB may be subject to a perceived or, potentially, an actual connection between the availability of funding and the outcome of its standard-setting process.¹²⁵ Similarly, the FCAG Final Report stated that in order for the IASB to protect its independence from undue influence, “the IASB must have a permanent funding structure under which sufficient funds are provided to it on an equitable and mandatory basis.” In the Proposed Roadmap, the Commission expressed the view that its “future determination regarding the required use of IFRS for all U.S. issuers should only occur after the IFRS Foundation reaches its goal of securing a stable funding mechanism that supports the independent functioning of the IASB.”

Similarly, many comment letters raised concerns about the independence and stability of the IASB's funding.¹²⁶ A number of commenters were concerned that the current voluntary nature of the contributions, as well as the source, might impact the apparent, or actual independence of the IASB.¹²⁷ Commenters expressed the view that establishing a stable, transparent funding framework for the IFRS Foundation would significantly reduce the concern that financial pressure could compromise the independence of the IASB's decision-making.¹²⁸

¹²⁴ See the list of long-term funding commitments on the IASB's Web site. (available at: <http://www.iasb.org/The+organisation/Governance+and+accountability/Financing/Long-term+funding+commitments.htm>)

¹²⁵ See Proposed Roadmap and 2007 FPI Adopting Release. See also “Report of the Financial Crisis Advisory Group” (July 28, 2009) (“FCAG Final Report”). (available at: http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156365880). The Financial Crisis Advisory Group (“FCAG”) was formed to advise the FASB and the IASB (collectively, the “Boards”) about the standard-setting implications of the financial crisis and potential changes in the global regulatory environment. The members of the FCAG are senior leaders with broad international experience in the financial markets, observed by key global banking, insurance and securities regulators.

¹²⁶ See, e.g., Association of Chartered Certified Accountants (“ACCA”), Alcoa, BEP, CAQ, Grant Thornton LLP (“GT”), McGladrey, PPL Corporation (“PPL”), PricewaterhouseCoopers LLP (“PwC”), UBS AG (“UBS”), United Technologies Corporation (“UTC”), and WellPoint, Inc.

¹²⁷ See, e.g., American Accounting Association, Financial Reporting Standing Committee; CalPERS; CRIFR; and Institute of Management Accountants (“IMA”).

¹²⁸ See, e.g., CalPERS and IMA.

The Staff recognizes that the United States has a significant interest in the stable funding of the IFRS Foundation¹²⁹ and is committed to exploring strategies to address this issue. Accordingly, the Staff will analyze for the Commission's benefit: (1) The extent to which the IFRS Foundation's sources of funding promote the independence of the IASB, and (2) possible funding mechanisms to provide the U.S.-based contribution to the IFRS Foundation. Specifically, the Staff will:

- Evaluate whether the Trustees' four characteristics governing the establishment of a funding approach are appropriate.
- Monitor the IFRS Foundation's funding arrangements to determine whether voluntary funding from individual organizations continues to be reduced and a stable, independent funding platform is secured.
- Explore alternatives for funding mechanisms in the United States.

E. IASB Standard-Setting Process

The IASB conducts projects necessary to develop high-quality standards. The *Due Process Handbook for the IASB* details procedures to be followed when setting standards, with an emphasis on how each stage of the process must address transparency and accessibility, extensive consultation and responsiveness, and accountability.¹³⁰

The IASB solicits views and seeks input from the public throughout the standard-setting process, starting with selecting items for its agenda and including developing and publishing a discussion paper and/or exposure draft and issuing a final standard. Input is received from discussions at its project working group and roundtable meetings as well as written submissions from constituents.¹³¹

In the 2003 Policy Statement, the Commission stressed the importance of three components in the standard-setting process, as follows:

- Consideration of international convergence on high-quality accounting standards for the public interest and for the protection of investors;¹³²
- Timeliness in completing projects, while satisfying appropriate public notice and comment requirements; and
- Objectivity in decision-making and careful consideration of the views of constituents and the expected benefits and perceived costs of each standard.

¹²⁹ In 2009, 33 companies based in the United States were expected to provide voluntary contributions, ranging widely in amount. See IASC Foundation, Information for Observers: IASCF Meeting with Monitoring Board (April 1, 2009). (available at: <http://www.iasb.org/NR/rdonlyres/B0B1770C-F414-4DCA-968D-505D521D1839/0/APMB2CFundingreport.pdf>)

¹³⁰ See IASC Foundation, *Due Process Handbook for the IASB* (October 2008) (“Handbook”). (available at: <http://www.iasb.org/NR/rdonlyres/1E8D75B7-927F-495B-BE4A-04C9BE967097/0/DueProcess09.pdf>)

¹³¹ See *Id.*

¹³² The effect of international convergence on the quality of IFRS will be evaluated in section I. Accordingly, in this section, this component of the standard-setting process will focus on accounting standards for the public interest and the protection of investors.

¹¹⁹ See footnote 45, above.

¹²⁰ Membership of the IASB will be four members drawn from each of the Asia/Oceania region, Europe, and North America; one member from South America; one member from Africa; and two members from any area, subject to overall geographical balance.

¹²¹ The Trustees concluded that the expansion of the IASB to 16 members would enable the IASB to discharge its increasing liaison functions in an improved manner, while not negatively affecting the efficiency of the IASB's deliberative processes.

¹²² See, e.g., CII and ICGN.

¹²³ The Trustees determined that characteristics of the new plan for 2008 would be broad-based, compelling, open-ended, and country-specific. See IASC Foundation, Annual Report 2006. (available at: <http://www.iasb.org/NR/rdonlyres/D95B6BF3-A12A-4C6C-BDA1-BDC98B4F2A45/0/IASCFoundationAnnualReportFinal.pdf>)

The following discussion will consider each of these components in the context of the IASB's standard-setting process.

1. Pre-eminence of Investors

In its final report, CIFIIR asserted that:

Investor perspectives are critical to effective standards-setting, as investors are the primary consumers of financial reports. Only when investor perspectives are properly considered by all parties does financial reporting meet the needs of those it is primarily intended to serve. Therefore, investor perspectives should be given pre-eminence by all parties involved in standards-setting.¹³³

Several commenters, including investor groups, expressed the view that greater investor representation on the IASB (and FASB) and related oversight groups would assist in meeting the primary objective of general purpose financial reporting (*i.e.*, providing useful information to investors in making business and economic decisions).¹³⁴ One commenter expressed the view that the lack of investor representation may expose those charged with governance to pressure from special interest groups to act in a manner that may not be compatible with the best interests of investors.¹³⁵

The Staff notes the IFRS Foundation's recent efforts involving investor groups. Recently, two new members from the U.S. investor community have been appointed to the IASB.¹³⁶ In addition, the IASB has an advisory council—the IFRS Advisory Council (formerly called the “Standards Advisory Council”) ¹³⁷—that is composed of approximately 40 individuals ¹³⁸ drawn from geographically-diverse countries, some of which use IFRS and others that do not. The IFRS Advisory Council has an investor subgroup representing major investment organizations in the U.S. and internationally to allow for better engagement of the IASB and its staff with investor representatives.

The Staff intends to explore the extent to which the IASB promotes the pre-eminence of investor views. For example, the Staff will review the IASB's practices, as compared to the requirements detailed in the Constitution, Handbook, and other relevant IFRS Foundation and IASB documents and constituent expectations, to assess the IASB's focus on the pre-eminence of investor views.

2. Timeliness

The IASB normally allows a period of 120 days for comment on a discussion paper and exposure draft. For major projects (which are

those projects involving pervasive or difficult conceptual or practical issues), the IASB normally will allow a period of more than 120 days for comments.

A commenter noted that the IASB's standard-setting process could be improved through prompt consideration to keep standards current and reflect emerging accounting issues and changing business practices. The commenter also noted that in rare circumstances, the IASB may need to shorten its due process period in order to achieve a timely solution.¹³⁹

The Handbook allows for the IASB to have a shorter period of consultation, if required, of 30 days. Effective March 1, 2010, the Trustees revised their Constitution to include a provision to allow them, in exceptional circumstances, to authorize a shorter due process period. Authority would be given only with the approval of 75 percent of the Trustees after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.

Recently, the FCAG addressed situations in which it may be appropriate for the Boards to expedite due process. The FCAG Final Report urged the Boards to adequately define the circumstances under which it is appropriate to act on the basis of expedited due process and develop procedures to ensure that, in such circumstances, the maximum consultation practicable is obtained.

The Staff believes that the standard-setting process requires a careful balance between timely resolution of emerging issues and sufficient due process. The Staff will analyze for the Commission's benefit the extent to which the IASB balances timely resolution of emerging issues and due process so as to support a Commission decision regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will review the IASB's practices, as compared to the requirements detailed in relevant IFRS Foundation and IASB documents and constituent expectations, to assess the IASB's ability to resolve emerging issues in a timely and effective manner without compromising due process.

3. Objectivity

The Monitoring Board, of which the SEC Chairman is a member, recently stated that “[c]onfidence in the quality and integrity of the standards depends upon independence and transparency in the standard setter's due process.”¹⁴⁰ The Monitoring Board statement expressed the view that robust participation by all interested parties is an essential element of due process.

Commenters expressed concerns regarding whether the independence of the IASB recently has been compromised.¹⁴¹ A

commenter further questioned whether the IFRS Foundation and the IASB have the ability and infrastructure to confront political pressure from governments around the world.¹⁴²

Similarly, the FCAG observed that:

“[T]o develop standards that are high quality and unbiased, accounting standard setters must enjoy a high degree of independence from undue commercial and political pressures, but they must also have a high degree of accountability through appropriate due process, including wide engagement with stakeholders and oversight conducted in the public interest.¹⁴³

The IASB relies on a number of practices and other factors to ensure that it considers a diversity of views, including:

- The IASB's meetings are open to public observers and broadcast over the internet.
- Meeting materials, comment letters received, and staff summaries of comment letters on discussion papers and exposure drafts are publicly available on the IASB Web site.¹⁴⁴
- The IASB is assisted on IFRS interpretive matters by its IFRS Interpretations Committee (formerly called the “International Financial Reporting Interpretations Committee,” or “IFRIC”).¹⁴⁵
- The IASB consults with the IFRS Advisory Council on single projects with a particular emphasis on practical application and implementation issues.¹⁴⁶
- The IASB cooperates with national accounting standard setters and other official bodies concerned with standard setting in order to promote the convergence in accounting standards around the world.¹⁴⁷
- The due process of the IASB is subject to the active oversight of the Trustee Due Process Oversight Committee.

The Staff will analyze for the Commission's benefit the extent to which the

¹⁴² See MetLife, Inc. (“MetLife”).

¹⁴³ See FCAG Final Report.

¹⁴⁴ See the IASB's Web site at <http://www.iasb.org> for more information on IASB process.

¹⁴⁵ The IFRS Interpretations Committee interprets IFRS and reviews accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. The IFRS Interpretations Committee is comprised of fourteen voting members, appointed by the IFRS Foundation Trustees for renewable terms of three years, and two observers (IOSCO and the European Commission). Interpretations by the IFRS Interpretations Committee are ratified by the IASB prior to becoming effective.

¹⁴⁶ In 2008, the Trustees agreed to change the membership structure of the SAC, so that members would serve primarily as representatives of organizations. The Trustees believe that this adaptation of the IFRS Advisory Council will enable the IASB to receive views reflecting a wider range of interested parties and would give greater authority to views received. The Commission also participates as an observer of the IFRS Advisory Council.

¹⁴⁷ For additional information, see IASB, Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters (February 2006), (available at: http://www.iasb.org/NR/rdonlyres/8F20428C-BC3C-4CFE-A194-4386174C949D/0/SOBB_February2006final.pdf)

¹³³ See CIFIIR Final Report, page 57.

¹³⁴ See, *e.g.*, ICGN.

¹³⁵ See CFA.

¹³⁶ See “Two leading US analysts appointed to the IASB,” IASB press release (May 21, 2009), (available at: <http://www.iasb.org/NR/rdonlyres/2BA72D82-ACFD-4899-89D9-4DB8151B44F2/0/PRTwoLeadingUSAnalystsAppointedtotheIASB210509.pdf>)

¹³⁷ The IFRS Advisory Council supports the IASB and provides a forum where the IASB consults individuals and representatives of organizations affected by its work that are committed to the development of high-quality IFRS.

¹³⁸ A list of members is available at: <http://www.iasb.org/NR/rdonlyres/A0D53C88-8988-4B3F-8B0A-07B01DCBF975/0/MembershipSAC.pdf>.

¹³⁹ See FRC.

¹⁴⁰ Statement of the Monitoring Board for the International Accounting Standards Committee Foundation on Principles for Accounting Standards and Standard Setting (September 22, 2009), (available at: http://www.iosco.org/monitoring_board/pdf/Monitoring_Board_of_IASCF_Statement_22092009.pdf)

¹⁴¹ See, *e.g.*, BEP, CFA, and ITAC.

IASB's standard-setting process is independent and objective. Specifically, in conjunction with the other steps in this section related to the oversight, composition, and funding of the IFRS Foundation and the IASB, the Staff will review the IASB's practices, as compared to the requirements detailed in relevant IFRS Foundation and IASB documents and constituent expectations, to assess the adequacy of the IASB's independence and objectivity during recent standard-setting efforts.

III. Investor Understanding and Education Regarding IFRS

A. Introduction

Incorporation of IFRS into the financial reporting system for U.S. issuers requires consideration of the impact on investors. This consideration includes focus on the extent to which the accounting standards and the standard-setting process promote the reporting of transparent and useful financial information to support investors in their investment decision-making process. In addition, this consideration requires an assessment of investor understanding and education regarding IFRS, as the main benefits to investors of a single set of high-quality globally accepted accounting standards would be realized only if investors understand and have confidence in the basis for the reported results.

Investor considerations regarding IFRS and investor confidence in IFRS and its standard setting are discussed in more detail in sections I and II, respectively. This section focuses on investor understanding and education regarding IFRS. In particular, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers, transitional considerations related to investor understanding and education regarding IFRS require evaluation to assess the scope of, timing of, and approach to changes that would be necessary for effective incorporation.

B. Investor Understanding and Education

IFRS currently differs from U.S. GAAP in a number of areas; consequently, incorporation of IFRS into the financial reporting system for U.S. issuers may require significant investor education regarding IFRS. However, as noted by one commenter, many U.S. investors already possess some understanding of IFRS due to global industry focus, cross-border investment decisions, and investments in foreign private issuers.¹⁴⁸ Moreover, through the convergence process undertaken by the Boards, we expect the differences between the two sets of standards should become fewer and narrower. As part of this Work Plan, the Staff will consider U.S. investors' current familiarity with IFRS and how they currently become educated about changes to accounting standards, in order to better assess the extent of investor educational effort necessary to effectively incorporate IFRS into the financial reporting system for U.S. issuers.

Because standard setters are continually improving accounting standards,

mechanisms already exist for investors to become educated about the effects of changes to the accounting standards. By considering the general education process currently used by investors in understanding changes to U.S. GAAP, the Staff will evaluate how this process could apply to investor education with respect to IFRS in preparation for its potential incorporation into the financial reporting system for U.S. issuers. In addition, the staff will consider whether additional educational efforts are needed.

Existing mechanisms to educate investors traditionally are considered in the context of education after a standard has been developed. Also important, however, is investor education during the standard-setting process, which may occur in two ways. First, active investor outreach by the standard setters may increase both the extent and quality of understanding of new standards. In the past, both Boards have used a number of tools to facilitate investor, issuer, and auditor education about new standards, including education sessions, roundtables, and Web casts. Second, the Boards' convergence projects will be completed in accordance with their due process procedures, providing investors with time to become familiar with the new converged standards as they are developed. The Staff believes the effectiveness of these two areas in educating investors during the standard-setting process needs to be evaluated.

The Staff will analyze for the Commission's benefit how to promote investor understanding of IFRS, as well as the existing mechanisms to educate investors about changes in the accounting standards, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Conduct research aimed at understanding U.S. investors' current knowledge of IFRS and preparedness for incorporation of IFRS into the financial reporting system for U.S. issuers.
- Gather input from various investor groups to understand how investors educate themselves on changes in accounting standards and the timeliness of such education.
- Consider the extent of, logistics for, and estimated time necessary to undertake changes to improve investor understanding of IFRS and the related education process to ensure investors have a sufficient understanding of IFRS prior to potential incorporation.

IV. Regulatory Environment

A. Introduction

In addition to filing financial statements with the Commission, U.S. issuers commonly provide financial information to a wide variety of other parties for different purposes. While the federal securities laws provide the Commission with the authority to prescribe accounting principles and standards to be followed by public companies and other regulated entities that file financial statements with the Commission, the provision and content of information to other regulators generally is not determined by the

Commission.¹⁴⁹ However, these other regulators frequently rely on U.S. GAAP as a basis for their regulatory reporting regimes.

Therefore, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers, transitional considerations related to the role of financial reporting in various regulatory regimes and how such incorporation would affect issuers, investors, and others in those contexts, require evaluation to assess the magnitude and logistics of changes that would be necessary for effective incorporation.

Accordingly, this section explores considerations related to the following:

- Manner in which the SEC fulfills its mission;
- Industry regulators;
- Federal and state tax impacts;
- Statutory dividend and stock repurchase restrictions;
- Audit regulation and standard setting;
- Broker-dealer and investment company reporting; and
- Public versus private companies.

B. Manner in Which the SEC Fulfills its Mission

Incorporation of IFRS into the financial reporting system for U.S. issuers may affect the manner in which the Commission fulfills its mission in two ways. First, the Commission must consider how to incorporate IFRS into its rules and regulations and Staff application guidance, to the extent they refer to accounting standards and requirements. Second, as stated in the Commission's 2003 Policy Statement:

"The federal securities laws set forth the Commission's broad authority and responsibility to prescribe the methods to be followed in the preparation of accounts and the form and content of financial statements to be filed under those laws (citations omitted), as well as its responsibility to ensure that investors are furnished with other information necessary for investment decisions. To assist it in meeting this responsibility, the Commission historically has looked to private-sector standard-setting bodies designated by the accounting profession to develop accounting principles and standards."

Commenters questioned how a move to IFRS would affect the Commission's relationship with the standard setter. For example, some questioned whether, under securities law, as amended by the Sarbanes-Oxley Act, the SEC has the ability to designate the IASB as the U.S. standard setter.¹⁵⁰ If the IASB were designated as the U.S. standard setter, commenters observed that the Proposed Roadmap is unclear as to how the Commission would exercise oversight of the IASB. Accordingly, commenters urged the Commission to determine how it would react in a crisis situation and how the Commission would protect U.S. investors if the IASB did not address U.S.-specific issues in a timely

¹⁴⁹ See Proposed Roadmap.

¹⁵⁰ See, e.g., American Bar Association Business Law Section ("ABA Committee").

¹⁴⁸ See EY.

manner.¹⁵¹ For example, some commenters indicated the Commission should retain the authority to interpret IFRS.¹⁵²

At the same time, other commenters have cautioned against a "U.S. version of IFRS,"¹⁵³ as follows:

"We do not believe the Commission should supplement any missing accounting or disclosure requirements or the financial statements would not be considered to be prepared in accordance with IFRS as issued by the IASB. We believe any additional disclosures the Commission would consider requiring should be included outside of the audited financial statements."¹⁵⁴

In response to these concerns, the 2010 Statement states:

"[The Commission] believe[s] the FASB will continue to play a critical and substantive role in achieving the goal of global accounting standards. The FASB is the accounting standard setter for the U.S. capital markets, and it should continue to work with the IASB to improve accounting standards. Moreover, that role would remain critical after adoption of global standards."

The Staff will analyze for the Commission's benefit the impact on Commission rules and procedures and potential approaches for the ongoing role of the FASB in accounting standard setting and interpretation, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze references to accounting standards and requirements in existing Commission rules and interpretations and Staff application guidance to identify the extent of, logistics for, and estimated time necessary to implement any changes prior to such incorporation.

- Consider how, if at all, such incorporation would affect the nature, manner, or frequency in which the Commission and its Staff provide interpretative accounting guidance and enforce accounting standards, and the extent of, logistics for, and estimated time necessary to implement any changes.

- Analyze approaches to the FASB's ongoing role in accounting standards used in the United States, and the extent of, logistics for, and estimated time necessary to undertake these approaches.

C. Industry Regulators

In the Proposed Roadmap, the Commission observed:

"Various federal and state regulators, including regulators of financial institutions, insurance companies and public utilities, are provided with periodic financial information on an on-going basis. For example, U.S. GAAP financial statements frequently are used as the basis for determining capital requirements for financial institutions."

¹⁵¹ See, e.g., Darden Restaurant, Inc. ("Darden") and Intel Corporation ("Intel").

¹⁵² See, e.g., ABA Committee and Travelers.

¹⁵³ See section I.D for further discussion regarding jurisdictional variations of IFRS.

¹⁵⁴ PPL. See also, e.g., Cisco Systems, Inc. ("Cisco") and Liberty Global.

Due to the prevalence of financial information provided to different U.S. regulators, incorporation of IFRS into the financial reporting system for U.S. issuers may significantly affect different regulators and issuers subject to those regulators' compliance requirements. As such, it is important to identify the full range of regulatory regimes that rely on information developed for financial reporting purposes.

A number of commenters suggested that the Commission determine the extent to which industry regulators would continue to accept financial statements prepared for SEC reporting purposes as a starting point for regulatory filings.¹⁵⁵ Otherwise, commenters cautioned that a move to IFRS for financial reporting purposes risks creating costly dual-reporting requirements for issuers.¹⁵⁶ Further, if regulators continue to accept reporting prepared for SEC purposes, any changes in the reporting as a result of incorporating IFRS could have regulatory impacts. The Staff recognizes that acceptance of IFRS-based financial statements by industry regulators may have consequences on issuers and others that require analysis.

The Staff will analyze for the Commission's benefit the effects on issuer compliance with industry regulatory requirements, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze the effects on issuer compliance with industry regulatory requirements.
- Consider the impact of a change in SEC reporting on industry regulators.
- Analyze constituent concerns associated with any potential changes, or lack thereof, to regulatory regimes.

D. Federal and State Tax Impacts

Incorporation of IFRS into the financial reporting system for U.S. issuers also could affect federal and state tax regulations (e.g., Internal Revenue Code).¹⁵⁷ As explained in the Proposed Roadmap:

"As the Internal Revenue Code has developed over an extended period of time with existing U.S. GAAP as the predominant set of accounting standards used in the United States, certain interactions exist between certain provisions of U.S. GAAP and income tax requirements. For example, the Internal Revenue Code has conformity provisions related to the method of accounting for inventory for tax reporting purposes and the method used for reporting to shareholders (and other owners or beneficiaries) or for credit purposes.¹⁵⁸ IFRS does not allow for the use of last-in, first-out,

¹⁵⁵ See, e.g., Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of Thrift Supervision (collectively, "BankReg"), Committee of Annuity Insurers, Dominion Resources Services ("Dominion"), First Data Corporation ("First Data"), and National Association of Regulatory Utility Commissioners ("NARUC").

¹⁵⁶ See, e.g., Boeing and Honeywell.

¹⁵⁷ 26 U.S.C. 1 *et seq.* [1986.]

¹⁵⁸ See Section 472 of the Internal Revenue Code (26 U.S.C. 472).

or LIFO, method of accounting for inventory. As a result, a company that reports in accordance with IFRS would be required to use a method of accounting for inventory that is acceptable under IFRS, for example the first-in, first-out, or FIFO, method. U.S. issuers changing to FIFO for financial reporting purposes may experience a change in taxable income based on the difference between inventory valued on a LIFO basis and on a FIFO basis."

If federal and state tax regulators maintained their current tax codes, companies may experience a significant increase in the number of book-tax differences they would be required to track upon incorporation of IFRS into the financial reporting system for U.S. issuers. Several commenters expressed that because of the high cost that otherwise would be incurred in maintaining two sets of records, the U.S. Internal Revenue Code, as well as state and local tax codes and related regulations, would need to be modified.¹⁵⁹

Alternatively, if federal and state tax regulators continued to align their tax codes with reporting for SEC purposes, companies may experience significant changes to their expected tax liabilities. Commenters expressed that the SEC should work with the Internal Revenue Service and other tax authorities to mitigate the LIFO transitional issue,¹⁶⁰ as well as address the transfer pricing arrangements and franchise tax considerations that may be affected in the transition.¹⁶¹

The Staff will analyze for the Commission's benefit the effects on federal and state tax regulations, as well as issuers subject to such regulations, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze the effects on federal and state tax regulations, as well as issuers subject to such regulations.
- Consider the impact of a change in SEC reporting on federal and state tax regulators.
- Analyze constituent concerns associated with any potential changes, or lack thereof, to federal and state tax regulation.

E. Statutory Dividend and Stock Repurchase Restrictions

Certain legal standards may be tied to amounts determined for financial reporting purposes. For example, companies may declare dividends to or repurchase stock from shareholders. While the amount, timing, and manner of payment of dividend distributions and stock repurchases are typically determined by the companies' boards of directors, the amount available may be restricted by state statute. For example, some jurisdictions provide that dividends may only be paid from retained earnings or may be paid from current earnings despite an accumulated deficit.

To the extent that jurisdictions base legal standards on amounts determined for

¹⁵⁹ See, e.g., Allergan, Inc. and tw telecom.

¹⁶⁰ See, e.g., KPMG, The LIFO Coalition ("LIFO"), and National Association of Wholesaler-Distributors.

¹⁶¹ See KPMG.

financial reporting purposes, incorporation of IFRS into the financial reporting system for U.S. issuers could affect a company's ability to undertake certain actions and an investor's expectations in that regard. In addition, to the extent that legal standards do not change based on changes in SEC reporting, companies would need to maintain two sets of records. Accordingly, the Staff will analyze for the Commission's benefit the effects on such legal standards, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze the effect of such incorporation on legal standards, such as a company's ability to pay dividends or repurchase stock, on issuers and investors.
- Consider the impact of a change in SEC reporting on state statutes in this regard.
- Analyze constituent concerns associated with any potential changes, or lack thereof, to such state statutes.

F. Audit Regulation and Standard Setting

Another regulatory body that may be affected by incorporation of IFRS into the financial reporting system for U.S. issuers is the Public Company Accounting Oversight Board ("PCAOB"), which is responsible for overseeing public company audit firms and establishing audit, quality control, ethics, and independence standards used by those firms.¹⁶² The Proposed Roadmap and commenters raised two primary considerations related to the PCAOB. First, commenters questioned whether a move to global accounting standards should be coupled with a move to global auditing standards in the United States, for example, through convergence of PCAOB standards with or adoption of auditing standards issued by the International Accounting and Assurances Standards Board.¹⁶³ Second, commenters noted that PCAOB auditing standards may require better alignment with IFRS. For example, one commenter expressed a general concern that there would be a mismatch between the less prescriptive standards in IFRS and U.S. auditing standards.¹⁶⁴ In addition, the Proposed Roadmap identified a general need for conforming amendments to PCAOB standards where they refer to current U.S. GAAP literature.

Commenters also provided specific examples of PCAOB auditing standards that may require better alignment with IFRS. For example, commenters suggested that the PCAOB issue additional guidance for auditors engaged in auditing market risk information included in the audited financial statements pursuant to IFRS 7 (currently U.S. issuers provide similar information outside the financial statements pursuant to Item 305 of Regulation S-K).¹⁶⁵

Further, the Proposed Roadmap discussed the audit of legal contingencies as follows:

"One of the conditions under IFRS for recognizing a provision for a legal

contingency is that it is more likely than not that an obligation exists (footnote omitted). This recognition threshold is lower than the current recognition threshold in U.S. GAAP, resulting in the potential for an earlier income statement recognition of costs associated with litigation (footnote omitted). Concerns have been raised about an auditor's ability to corroborate the information furnished by management related to litigation, claims, and assessments by obtaining an audit inquiry letter from a client's attorney."¹⁶⁶

Notwithstanding the above examples of areas where PCAOB auditing standards may require better alignment with IFRS, most auditors that responded to the Proposed Roadmap did not have concerns regarding their ability to opine on financial statements prepared under IFRS.¹⁶⁷

The Staff will analyze for the Commission's benefit the effects on audit standard setting and auditor requirements, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Consider the impact of such incorporation on PCAOB standards.
- Consider the extent of, logistics for, and estimated time necessary to undertake any changes to the auditing standards.

G. Broker-Dealer and Investment Company Reporting

The Proposed Roadmap excluded investment companies registered under the Investment Company Act of 1940 and certain other regulated entities that are required to file or furnish certain types of financial reports (e.g., broker-dealers).

Some commenters expressed that no issuers should be exempt from the scope of the Proposed Roadmap¹⁶⁸ and that the final Roadmap should include a plan so that all

¹⁶⁶ As further discussed in the Proposed Roadmap:

Some believe that changes to the American Bar Association Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information may be necessary. See AU section 337C. The Statement of Policy, commonly referred to as the "Treaty," recognizes the professional responsibilities of attorneys and auditors and seeks to preserve confidentiality while providing the necessary level of assurance for the audit. The Treaty recognizes that the confidentiality of communications between an attorney and a client may be impaired by the disclosure of the substance of such communications to third parties, including auditors. By describing thresholds for disclosure and limitations on responses, the Treaty sets the scope of the attorney's responses to audit requests for information on legal matters. Some believe that the thresholds and limitations described in the Treaty are inconsistent with certain provisions within IFRS.

See also, e.g., ABA Committee (echoed the Commission's statements in the Proposed Roadmap regarding the audit of legal contingencies).

¹⁶⁷ See, e.g., CAQ (stated that the U.S. auditing profession stands ready to support the use of IFRS by all U.S. issuers, including early adopters under an option), J.H. Cohn LLP (confirmed its readiness to prepare for audits of IFRS financial statements once the SEC reaches a decision), and PwC.

¹⁶⁸ See, e.g., BDO Seidman, LLP ("BDO"), CAQ, and Verizon Communications, Inc.

filings with the SEC are based on IFRS and allow adequate time for the IASB and SEC to consider the appropriate financial reporting model for these entities.¹⁶⁹

Alternatively, some commenters supported the exclusion of investment companies from the rule proposal.¹⁷⁰ Another commenter expressed the view that the Commission has not sufficiently articulated its rationale for excluding investment companies and other regulated entities from the scope of the Proposed Roadmap and would agree with excluding these issuers "only if there are unique considerations surrounding these entities that could delay the Commission's decision making process."¹⁷¹

Finally, commenters also expressed concerns regarding costs imposed by the reduced comparability introduced by the continued use of another basis of accounting (e.g., for private companies (see below), and/or Investment Company Act registrants).¹⁷² As another example, excluding broker-dealer reporting could result in a broker-dealer subsidiary being required to report to the Commission under one set of standards with the public holding company that consolidates that subsidiary required to report under another. Also, to the extent reporting results changed if IFRS were to be incorporated for these entities, such a change could impact compliance with financial responsibility rules, such as net capital requirements.

In light of the different views noted above, the Staff will analyze for the Commission's benefit possible approaches for financial reporting requirements for broker-dealers and investment companies, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Assess the effects of such incorporation on broker-dealers, investment companies, and investors, including whether IFRS includes sufficient standards, and the extent of, logistics for, and estimated time necessary to undertake any changes, should broker-dealers and investment companies be included in the scope any potential Commission decision.
- Evaluate the effect on investors of excluding broker-dealers and investment companies from the scope of any potential Commission decision.

H. Public Versus Private Companies

The Proposed Roadmap focused only on companies that file with the Commission. However, existing U.S. GAAP also is used by private companies.

Commenters expressed concern over the impact a move to IFRS would have on U.S.

¹⁶⁹ See, e.g., EY.

¹⁷⁰ See, e.g., AICPA and Investment Company Institute (who expressed that convergence in accounting standards as applied to investment companies and resolution of conflicts between IFRS and Article 6 of Regulation S-X should be prerequisites to a move to IFRS).

¹⁷¹ GT.

¹⁷² See, e.g., Private Equity Council.

¹⁶² See Section 101 of the Sarbanes-Oxley Act (15 U.S.C. 7211).

¹⁶³ See, e.g., CalPERS and FEE.

¹⁶⁴ See AAA-FASC.

¹⁶⁵ See, e.g., KPMG.

private companies.¹⁷³ One concern raised in the Proposed Roadmap and echoed by commenters was that, to the extent two sets of standards existed, a requirement to file different financial statements with the Commission would increase costs of capital for private companies considering an initial public offering.¹⁷⁴ It could also impact the evaluation of business combinations between public and private companies. Some commenters acknowledged that private company reporting is largely outside of the mandate of the Commission, but stated that the Commission should assess the consequences its decision on IFRS would have to this large and important part of the U.S. economy. Specifically, certain of these commenters believed that if a “dual-GAAP” system emerged for private versus public companies, this could adversely affect the efficiency of the U.S. capital markets.¹⁷⁵ Even if U.S. private companies were to report under IFRS, a “dual-GAAP” system may evolve, if private companies followed IFRS for small- and medium-sized entities (“SMEs”), which:

“[I]s a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller [private] businesses. Many of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. To further reduce the reporting burden for SMEs revisions to the IFRS will be limited to once every three years.”¹⁷⁶

The Staff will analyze for the Commission’s benefit the effects on U.S. private companies, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze the effects of such incorporation for U.S. issuers on private companies, auditors, and investors.
- Assess the extent of, logistics for, and estimated time necessary to undertake changes to accommodate any resulting implications on private companies.

V. Impact on Issuers

A. Introduction

Incorporation of IFRS into the financial reporting system for U.S. issuers would significantly affect preparers of financial statements—the several thousand issuers that file reports with the Commission. Numerous commenters expressed the view that the costs, effort, and time involved with a move to IFRS would be considerable,¹⁷⁷ with many

asserting that the benefits of such a move may not outweigh those costs.¹⁷⁸ A number of commenters further asserted that the transition time articulated in the Proposed Roadmap was not sufficient¹⁷⁹ and may cause confusion, thereby damaging investor confidence.¹⁸⁰

Accordingly, this aspect of the Work Plan explores the magnitude and logistics of changes that issuers would need to undertake to effectively incorporate IFRS into the financial reporting system for U.S. issuers, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers in the following areas:¹⁸¹

- Accounting systems, controls, and procedures;
 - Contractual arrangements; and
 - Corporate governance.
- The Work Plan will also consider the effect of such incorporation on the following:
- Accounting for litigation contingencies; and
 - Smaller issuers versus larger issuers.

B. Accounting Systems, Controls, and Procedures

U.S. issuers may be required to significantly modify their accounting systems, controls, and procedures, if the Commission incorporates IFRS into the financial reporting system. As stated in the Proposed Roadmap:

“Use of any new accounting standards requires changes to financial reporting systems and procedures to identify, collect, analyze and report financial information and the corresponding controls. Changing numerous accounting standards at the same time, regardless of the starting point, would require numerous changes in a company’s policies and procedures and system of internal controls.”

For example, commenters expressed the need for:

- A complete survey of accounting policies as a first step because IFRS explicitly requires that all similar transactions in the enterprise (including affiliates) be accounted for similarly;¹⁸²

Inc. (“Hot Topic”), Intel, Graduating Seniors—Jacksonville University (Georgia), Kohl’s Department Stores, Inc. (“Kohl’s”), Molson Coors Brewing Company, NARUC, PPL, Psoras, Mark A. Supin, SIFMA, U.S. Congressman Lee Terry, Tuesday Morning; and U.S. Congressman Zach Wamp.

¹⁷⁸ See, e.g., Davey Tree, Exxon Mobil Corporation (“Exxon Mobil”), Marriott, McDonald’s, Pfizer Inc. (“Pfizer”), Plantronics, Inc. (“Plantronics”), Regions Financial Corp., and tw telecom.

¹⁷⁹ See, e.g., ABA Committee, American Insurance Association (“AIA”), AICPA, BankReg, Best Buy Co., Inc., CAQ, Cisco, Cymer Inc., Deloitte, EY, Fannie Mae, Graybar Electric Company, Inc., ICAEW, IMA, KPMG, National Association of Real Estate Investment Trusts, NARUC, Progress Energy, Inc., PwC, Reznick Group, P.C., TransCanada Corporation, and Xenoport.

¹⁸⁰ See, e.g., Association of the Bar of the City of New York, Community Health, CSX Corporation, and Plantronics.

¹⁸¹ The human resource impact on issuers is discussed separately in section VI.

¹⁸² See, e.g., Ameen.

- More detailed company policies, as IFRS is viewed as less developed than U.S. GAAP;¹⁸³ and

- Changes to systems, including ledgers and related internal controls, and related testing of such changes,¹⁸⁴ particularly to ensure effectiveness for reporting purposes under section 404 of the Sarbanes-Oxley Act.

Commenters noted that the burden of changes to accounting systems, controls, and procedures would be exacerbated in a number of ways. First, issuers may be required to maintain dual-accounting systems for a period of time (e.g., (1) for periods reported under existing U.S. GAAP after the opening balance sheet date under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, but before the initial filing under a system incorporating IFRS, (2) if the SEC were to require supplemental U.S. GAAP information for a period of time to aid in transition, (3) if such incorporation were effective in the financial statements of consolidated entities prior to those of the consolidated entities’ stand-alone subsidiaries, and (4) if other regulators continued to require reporting based on U.S. GAAP). One commenter stated:

“Maintaining dual reporting presents U.S. issuers with a significant burden since all of the processes, controls, and checks must occur twice for each transaction. Indeed, it is likely that the Sarbanes Oxley control testing requirements could nearly double during the period of parallel reporting.”¹⁸⁵

Second, changes to accounting systems, controls, and procedures require sufficient lead time. However, if IFRS continues to change at a rapid pace during this lead time, U.S. issuers will experience additional challenges in planning for incorporation of IFRS into the financial reporting system. As such, some commenters expressed the need for a “stable platform” for a period of time during which accounting standards do not change.¹⁸⁶ However, a “stable platform” may constrain the standard setters’ ability to address emerging issues.

Third, some commenters asserted that certain industries would be disproportionately impacted by incorporation of IFRS into the financial reporting system for U.S. issuers because of differences between existing U.S. GAAP and IFRS that are specific to their circumstances. One commenter stated that financial institutions will need sufficient time to prepare for conversion to IFRS, given the extent of systems changes and communications that will need to occur.¹⁸⁷ Other commenters expressed concerns about specific differences between U.S. GAAP and IFRS for which they believed the accounting under IFRS would be onerous.¹⁸⁸

¹⁸³ See, e.g., Air Products, Community Health, Darden, and Mead Westvaco.

¹⁸⁴ See, e.g., Ameen.

¹⁸⁵ UTC.

¹⁸⁶ See, e.g., Eli Lilly, Exxon Mobil, EY, and SIFMA.

¹⁸⁷ See ICAEW.

¹⁸⁸ See, e.g., Mead Westvaco, Plum Creek Timber Company, Inc., Potlatch Corporation, and Rayonier Inc. (who expressed concerns regarding the costs of complying with the requirement in International

¹⁷³ See, e.g., The New York State Society of Certified Public Accountants (“NY CPAs”) and Ohio CPAs.

¹⁷⁴ See, e.g., ABA Committee, Center for Capital Markets Competitiveness (“CCMC”), Davey Tree, First Data, and ITAC.

¹⁷⁵ See, e.g., CA CPAs and CIGNA Corporation.

¹⁷⁶ “IASB publishes IFRS for SMEs,” IASB press release (July 9, 2009). (available at: <http://www.iasb.org/News/Press+Releases/IASB+publishes+IFRS+for+SMEs.htm>)

¹⁷⁷ See, e.g., Phil Ameen (“Ameen”), Chevron Corporation, Eli Lilly, Shawn S. Fahrer, Hot Topic

The Staff will analyze for the Commission's benefit the effects on U.S. issuers' accounting systems, controls, and procedures, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Determine the extent of, logistics for, and estimated time necessary to undertake changes to issuer accounting systems, controls, and procedures to facilitate such incorporation.
- Consider the implications of a "stable platform," including the length of time and means of addressing emerging issues.

C. Contractual Arrangements

The Proposed Roadmap also noted that companies' contracts often, either explicitly or implicitly, require the use of U.S. GAAP or are based off of current U.S. GAAP reporting. For example, companies may have issued debt instruments which include financial covenants based on U.S. GAAP or require periodic reporting of financial statements prepared under U.S. GAAP. Similarly, lease contracts and employee compensation plans may be based on metrics computed using U.S. GAAP financial information.

Commenters indicated that a move to IFRS for U.S. issuers may require contract renegotiation or the preparation of two sets of financial statements, depending on how IFRS is incorporated in the U.S. capital markets.¹⁸⁹ In addition, performance under the existing agreements could be affected if the reported information changes. Accordingly, the Staff will analyze for the Commission's benefit the effects on contractual arrangements, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Assess the types and pervasiveness of contractual arrangements that would be affected by such incorporation and the manner in which they would be affected.
- Determine the costs, ability, plans, and estimated time required to address concerns regarding affected contractual arrangements.

D. Corporate Governance

Incorporation of IFRS into the financial reporting system for U.S. issuers may affect an issuer's compliance with corporate governance requirements. For example, in 2003, as required by the Sarbanes-Oxley Act, the SEC adopted rules that require a registrant to disclose whether it has at least one "audit committee financial expert" (as defined) serving on its audit committee and, if so, the name of the expert and whether the expert is independent of management.¹⁹⁰

Accounting Standard 41, *Agriculture*, to fair value timberlands). See also, e.g., Hot Topic, J.C. Penney Company, Inc., Kohl's, and Tuesday Morning (who expressed concerns about the IFRS disallowance of the retail inventory method).

¹⁸⁹ See, e.g., AIA, CCMC, Hot Topic, JP Morgan, Psoras, and Tuesday Morning.

¹⁹⁰ See *Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002*, Release No. 33-8177 (January 23, 2003) [68 FR 5110 (January 31, 2003)].

Those rules also indicate the education and experience through which those attributes must have been acquired.

Listing rules for U.S. securities exchanges also have requirements regarding audit committee competence. One commenter explained:

"[R]ules of the NYSE, NASDAQ, and AMEX require members of the audit committee of each listed company to be financially literate and each listed company audit committee must have at least one member who has accounting or related financial management expertise. Many board members who currently meet the "financial expertise" qualifications are not likely to have had experience with IFRS or its adoption as they have been trained in U.S. GAAP. If a company adopts IFRS, its board is likely to need additional training in IFRS in order to meet the level of financial expertise necessary for them to carry out these functions and satisfy these requirements."¹⁹¹

Accordingly, incorporation of IFRS into the financial reporting system may result in challenges for U.S. issuers in identifying audit committee financial experts and in listing on securities exchanges, as well as, more broadly, compliance with other aspects of corporate governance. Further, similar to the potential effects on compliance with other regulatory requirements, changes in financial reporting could impact a company's compliance with certain quantitative listing standards. The Staff will analyze for the Commission's benefit the impact on compliance with corporate governance standards, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Determine the potential effects on corporate governance and related concerns of such incorporation.
- Determine possible approaches to address corporate governance concerns and the extent of, logistics for, and estimated time necessary to undertake these approaches.

E. Accounting for Litigation Contingencies

Commenters expressed concerns regarding the treatment of litigation-related loss contingencies under IFRS. For example, the ABA Committee asserted that accounting for such contingencies under IFRS raises serious concerns by its use of a lower recognition threshold than U.S. GAAP and its requirements to make additional disclosures. Their concerns included "avoidance of prejudice to companies and their shareholders in our highly litigious society" and erosions of the protections of attorney-client privilege and work product. Other commenters expressed similar concerns, with one noting:

"[T]he loss contingency disclosures required under IFRS are similar to those proposed by the FASB in 2008. As these disclosures were rejected for use in the U.S. primarily due to objections from the legal community, it is likely that similar issues will arise if IFRS becomes mandatory."¹⁹²

¹⁹¹ Metlife.

¹⁹² Dominion. See also, e.g., FPL and Pfizer. The Staff notes that the FASB is in the process of re-

Incorporation of IFRS into the financial reporting system for U.S. issuers requires careful consideration of the impact of litigation contingency accounting and disclosure requirements under IFRS on issuers and investors. Accordingly, the Staff will analyze for the Commission's benefit the effects on accounting and disclosure requirements for litigation contingencies under IFRS in the U.S. legal environment, should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Discuss with issuers, the legal profession, and investors concerns regarding accounting and disclosure requirements for litigation contingencies under IFRS.
- Determine possible approaches to address concerns regarding accounting and disclosure requirements for litigation contingencies under IFRS and the extent of, logistics for, and estimated time necessary to undertake these approaches.

F. Smaller Issuers Versus Larger Issuers

Several commenters asserted that a move to IFRS would be particularly burdensome for smaller U.S. issuers. For example, one commenter included studies from two independent consultants indicating that, while recognizing potential cost savings for some large, multinational firms, a move to IFRS is likely to impose substantial transition costs, including disproportionate costs on smaller issuers.¹⁹³ Conversely, one commenter stated that "the impact is expected to be very small and the majority of the impact will occur in non-routine or one-off transactions which are typically subject to significant scrutiny in any case."¹⁹⁴

In light of the above comments, the Staff will analyze for the Commission's benefit the extent to which incorporation of IFRS into the financial reporting system for U.S. issuers would affect smaller issuers differently than larger issuers and the extent of, logistics for, and estimated time necessary to undertake any changes, should the Commission determine in the future to do so. Specifically, the Staff will:

- Determine the manner in which the impact of such incorporation varies based on issuer size.
- Determine possible approaches to mitigate concerns regarding any disproportionate effects on smaller issuers of such incorporation and the extent of, logistics for, and estimated time necessary to undertake these approaches.

VI. Human Capital Readiness

A. Introduction

Should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers, transitional

deliberating loss contingency disclosure requirements. See also section IV.E regarding concerns related to the auditing of loss contingencies accounted for under IFRS.

¹⁹³ FAF. See also, e.g., Biotechnology Industry Organization, Business Roundtable, CCMC, CRIFR, and IMA.

¹⁹⁴ Xenoport.

considerations related to the readiness of all parties involved in the financial reporting process, including investors (see section III for further discussion), issuers, attorneys, auditors, regulators, and educators require evaluation to assess the magnitude and logistics of changes that would be necessary to effectively incorporate IFRS into the financial reporting system for U.S. issuers. Accordingly, this section explores considerations related to:

- Education and training; and
- Auditor capacity.

B. Education and Training

In the Proposed Roadmap, the Commission noted that the education and ongoing training of most accountants in the United States are limited to or predominantly focused on the current provisions of U.S. GAAP. As a result, the Commission acknowledged that many parties likely would need comprehensive IFRS training, including:

- Investors, as discussed in section III;
- The personnel of issuers, including their accounting, internal audit, and investor relations departments, and their governing bodies, such as their audit committees and board of directors;
 - Specialists, such as actuaries and valuation experts, as they often are engaged by management to assist in measuring certain assets and liabilities for financial reporting purposes;
 - Attorneys, who will need to understand financial statements in order to, for example, advise on disclosures required under the securities laws and provide legal representations to external auditors;
 - External auditors;
 - Regulators, such as the Staff, PCAOB staff, and the staff of other regulatory bodies;¹⁹⁵
 - State licensing bodies, professional associations, and industry groups, who would need to integrate IFRS into their training materials, publications, testing, and certification programs (including the Uniform CPA Examination); and
 - Colleges and universities that would need to include IFRS in their curricula.

In the Proposed Roadmap, the Commission observed that strategies taken by those participants in markets where issuers already report in accordance with IFRS might serve as examples of approaches to increasing education and awareness of IFRS.

The Commission also expressed that the private sector may respond to any increased demand for IFRS education by making educational materials available.¹⁹⁶ Since the Commission's issuance of the Concept Release in August 2007, several of the largest accounting firms in the United States have made more material available to the public about IFRS generally, as well as about the application of specific IFRS standards.¹⁹⁷

¹⁹⁵ See, e.g., BankReg (noted that they "collectively employ thousands of examination and policy support personnel that will need to be adequately trained in the use of IFRS if it is adopted before convergence is achieved").

¹⁹⁶ See Proposed Roadmap.

¹⁹⁷ These materials include publications (e.g., PwC's *IFRS and US GAAP: similarities and*

Commenters expressed mixed views in terms of the importance of this issue, as well as timing for improvements in this area. Some commenters expressed concerns about the challenges faced in training and educating both existing and future practitioners.¹⁹⁸ For example, the nature of accounting education would require change, as professionals and students would not only need training in IFRS, but in utilizing judgment in the application of less prescriptive standards and in understanding the economic substance of transactions.¹⁹⁹ Accordingly, commenters expressed the view that a move to IFRS for U.S. issuers would be costly for educators,²⁰⁰ particularly if a dual-reporting system (e.g., due to different systems for public versus private companies) evolved in the United States.²⁰¹ Commenters also asserted that educators would not be ready in the near term²⁰² and that work needs to begin immediately.²⁰³ As such, some commenters recommended that the Commission address how sufficient resources and incentives for training would be achieved.²⁰⁴

Others, however, were of the view that educators, issuers, and other impacted parties would be prepared in time, particularly once a date for moving to IFRS were established.²⁰⁵ One commenter expressed that IFRS education and expertise will grow in the United States anyway—even if the United States does not move to IFRS—because of the ongoing increased foreign investment in the United States.²⁰⁶

The Staff recognizes that education and training efforts to facilitate incorporation of IFRS into the financial reporting system for U.S. issuers could be significant. Accordingly, the Staff will analyze for the Commission's benefit the sufficiency of the IFRS education and training infrastructure and the extent of, logistics for, and estimated time necessary to undertake changes, should the Commission determine in the future to do so. Specifically, the Staff will:

- Evaluate the current level of IFRS expertise and extent of IFRS education and training needs among constituents.
- Consider the extent of, logistics for, and estimated time to implement plans for future training among constituents.

differences; EY's US GAAP v. IFRS The basics: Oil and gas) and other IFRS-related education initiatives (e.g., the KPMG IFRS Institute; Deloitte's IFRS University Consortium; EY's Academic Resource Center; PwC's IFRS Video Learning Center).

¹⁹⁸ See, e.g., CalPERS, CFA, Fund Stockowner Rights, ITAC, NASBA, NYCPAs, and Ohio CPAs.

¹⁹⁹ See, e.g., London Ctr Int'l Corp Gov Law and Shyam Sunder.

²⁰⁰ See, e.g., AmerisourceBergen Corporation, Teresa P. Gordon, and Thomas N. Tyson.

²⁰¹ See, e.g., Travelers.

²⁰² See, e.g., American Accounting Association, Financial Accounting and Reporting Section, and Financial Reporting Policy Committee (pointed to surveys of educators indicating concerns over readiness).

²⁰³ See, e.g., ING Insurance Americas.

²⁰⁴ See, e.g., CalPERS and ICGN.

²⁰⁵ See, e.g., ACCA, Alcoa, CAQ, Dell Inc., EY, and PwC.

²⁰⁶ See Pepsi.

C. Auditor Capacity

Incorporation of IFRS into the financial reporting system for U.S. issuers could strain audit firm resources if sufficient training and time are not provided. The Proposed Roadmap noted that "[a]udit firms would need to consider elements of their systems of quality control, such as their practices related to hiring, assigning personnel to engagements, professional development and advancement activities." An increase in the demand for IFRS expertise may affect the availability of audit services, with consequences on audit quality, cost, and audit firm concentration.

While some commenters expressed that moving to IFRS is likely to have little or no effect on the availability of audit services and audit quality,²⁰⁷ others expressed concerns about a likely reduction in these areas, along with an increase in both internal and external audit costs, due to IFRS being less comprehensive and requiring more application of judgment.²⁰⁸ For additional discussion regarding the impact of IFRS's comprehensiveness on its auditability, see section I.C.

Others commented that the consequences of a move to IFRS for U.S. issuers on audit firms may differ based on audit firm size. With respect to the large audit firms, commenters believed that a move to IFRS for U.S. issuers is likely to have little or no effect on the availability of audit services and audit quality.²⁰⁹ Two large audit-firm commenters noted that they currently audit foreign private issuers as well as subsidiaries of foreign multi-nationals that report under IFRS.²¹⁰ Further, they anticipated leveraging personnel from other member firms in countries that have already moved to IFRS.

On the other hand, opinions were mixed on the impact of moving to IFRS on "smaller" audit firms. The Proposed Roadmap stated that the potential use of IFRS by U.S. issuers: "[M]ay be particularly challenging for less globally-oriented audit firms, which typically may have fewer resources available through affiliated or network firms located in jurisdictions in which issuers already report in accordance with IFRS. This could be a further factor affecting concentration in the auditing profession."

One commenter expressed concern that current IFRS expertise is concentrated within the "Big Four" public accounting firms, which could allow for opportunistic business behaviors when dealing with other competitors and regulators.²¹¹ However, others commented that an SEC mandate to move to IFRS would not affect the competitive position of smaller firms.²¹²

In light of these differing views, the Staff will analyze for the Commission's benefit potential auditor capacity constraints with respect to IFRS and their consequences,

²⁰⁷ See, e.g., Deutsche Bank, UBS, and UTC.

²⁰⁸ See, e.g., Davey Tree.

²⁰⁹ See, e.g., BDO, Deloitte, EY, and PwC.

²¹⁰ See Deloitte and PwC.

²¹¹ See ITAC.

²¹² See, e.g., ACCA, Deloitte, EY, ICAEW (indicated that a move to IFRS did not have an identifiable impact on audit concentration in Europe), and PwC.

should the Commission determine in the future to incorporate IFRS into the financial reporting system for U.S. issuers. Specifically, the Staff will:

- Analyze concerns regarding auditor capacity constraints, including the effect on

audit quality, cost, and audit firm concentration and competitiveness.

- Determine possible approaches to mitigate these concerns and the extent of,

logistics for, and estimated time necessary to undertake these approaches.

[FR Doc. 2010-4171 Filed 3-1-10; 8:45 am]

BILLING CODE 8011-01-P