Overview

In its Final Report on its Work Plan on a possible move to a set of global accounting standards, the Securities and Exchange Commission (SEC) staff summarises what it has learned. Along with other information, the Final Report will be used by the Commissioners to decide whether and, if so, when and how to incorporate IFRS into the financial reporting system for US issuers.

The staff noted that the Final Report does not indicate that the SEC has made a policy decision about whether to incorporate IFRS into the US financial reporting system. In executing the Work Plan, the staff considered a wide range of options. Based on feedback received early in the consultation process, the staff noted that a large majority of constituents opposed a requirement to adopt the standards of the International Accounting Standards Board (IASB) outright and also noted that many other countries that have incorporated IFRS into their financial reporting systems did not use this method. However, the staff said there is substantial support for exploring other methods of incorporating IFRS into US GAAP and focused its efforts accordingly.

The Final Report addresses the staff’s findings related to the six areas identified in the Work Plan:

- Sufficient development and application of IFRS for the US domestic reporting system
- Independence of standard setting for the benefit of investors
- Investor understanding and education regarding IFRS
- Regulatory environment
- Impact on issuers
- Human capital readiness

Summary of the staff’s findings

The staff noted that investors expressed concerns similar to its own about the independence and funding of the IASB, the potential for political interference in the standard-setting process and the need for a more active Interpretations Committee to narrow diversity in the application of IFRS. In general, investors said an endorsement approach to incorporate IFRS into US GAAP, coupled with the active involvement of the FASB in the standard-setting process, could address or mitigate many of their concerns. Following the release of this report, Michel Prada, Chairman of the Trustees of the IFRS Foundation, commented that many of the findings in this report are broadly consistent with the conclusions of the Monitoring Board and Trustees’ respective Governance and Strategy Reviews completed earlier in the year. However, he believes that most of the issues are already addressed in the work plan for 2012.5

The staff noted that regulators generally support a single set of high-quality globally accepted accounting standards, but the effect of incorporating IFRS on the regulatory environment would depend largely on the method of incorporation. Regulators for industries that use specific accounting guidance (e.g., rate-regulated industries) expressed concerns that incorporating IFRS without industry-specific guidance would create challenges for both preparers and regulators.

The staff’s research indicated that many constituents assert that IFRS is a more principles-based set of standards than US GAAP. Respondents to the 2008 Roadmap6 stated that IFRS allows for greater flexibility than US GAAP, which may result in standards that are less enforceable — a factor that would not be in the public interest. Other respondents had concerns about comparability because of inconsistency in application and the impact on auditability. Staff also noted that the FASB has recently issued objectives-based standards that require greater judgement to be exercised in application (e.g., SFAS 167 Consolidation of Variable Interest Entities). Staff noted that objectives-based standards are not necessarily problematic in their auditability or enforceability as their initial experience with SFAS 167 indicated that preparers, auditors, and regulators are able to apply and enforce this standard.

The US constituents’ concerns about comparability because of inconsistency in application could be mitigated by the infrastructure already established by the large international public accounting organisations to foster consistency in the application of IFRS. The staff also noted in their report that representatives from the international accounting organisations, with whom they have met, believe that the IFRS infrastructures that are currently in place would be suitable for an environment in which IFRS is incorporated into the financial reporting framework for US issuers. The staff was also informed that individuals from these firms also attend various inter-organisational meetings to share respective views and perspectives on the application of IFRS.

Issuers generally support a single set of high-quality, globally-accepted accounting standards, but supporters tended to be large issuers. The manner in which IFRS would be incorporated also significantly affected issuers’ views. One of the primary concerns among issuers is the cost of moving to IFRS, according to the staff. Issuers generally prefer a transition over

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3 A Comparison of US GAAP and IFRS and An Analysis of IFRS in Practice. See IFRS Developments Issue 19: SEC staff issues two papers on IFRS for further details.

4 The Monitoring Board and the Trustees of the IFRS Foundation concluded their strategy review and published two reports in February 2012 outlining the changes and improvements to the structure and composition of the IASB, Trustees and Monitoring Board of the IFRS Foundation. For further details, refer to IFRS Developments Issue 24: IFRS Foundation announces changes to its governance.


time – that is, an endorsement process – rather than a ‘big bang’ all-at-once approach. This would help to mitigate concerns about the cost as well as the challenges of transitioning systems, controls and procedures.

The staff believes the level of preparedness for a move to IFRS varies widely among investors, regulators, issuers and other constituents, and the demands on human capital would be influenced significantly by the method of transition to IFRS and length of any transition period. The extent to which IFRS and US GAAP are aligned through completion of the joint projects would directly affect this assessment. The staff also observed that challenges resulting from an endorsement method, which incorporates IFRS by phasing in changes to US GAAP, should be similar to what constituents face with current FASB standard setting.

In summary, while the Final Report does not provide a recommendation to the Commission, the staff indicated that many of the issues identified by them and other constituents would appear to be at least partly mitigated by an endorsement approach that retains a role for the FASB in the standard-setting process and incorporates IFRS into US GAAP. This would create a mechanism to ensure that standards are of sufficient quality, address areas where gaps in current IASB standards exist or interpretive guidance is needed on emerging issues and reduce the need to rewrite existing regulations and contracts. An endorsement mechanism would ensure a strong US voice in the standard-setting process.

In the IASB’s response to this report, Michel Prada believes that, while there are challenges, they are not insurmountable: “The Trustees note the publication of the final SEC staff report on the possible use of IFRSs within the United States. The report reiterates the many challenges that a large economy such as the United States faces when transitioning to IFRSs – challenges that other jurisdictions have successfully overcome when completing their own transition to IFRSs.

The Trustees will carefully study the report in detail and take further steps as necessary. While recognising the right of the SEC to determine the method and timing for incorporation of IFRSs in the United States, we regret that the staff report is not accompanied by a recommended action plan for the SEC. Given the achievements of the convergence programme inspired by repeated calls of the G20 for global accounting standards, a clear action plan would be welcome. For the benefit of both US and international stakeholders, the Trustees look forward to the SEC resolving the continued uncertainty regarding the US’s commitment to global accounting standards.”

Hans Hoogervorst, Chairman of the IASB, also remains positive about IFRSs achieving global acceptance: “IFRSs have already achieved critical mass as international standards and with more than two thirds of the G20 now on board, the momentum behind them becoming global accounting standards is irreversible. We are confident in our mission to achieve a single set of high quality global accounting standards and we continue to work to serve investors and other users of IFRSs across the world.

We are at a pivotal moment for our organisation. The IASB has started working on a new agenda. The era of convergence is coming to an end. We are revamping our institutional infrastructure to provide for a more inclusive approach to international standard setting. This is the right timing to come on board and participate in shaping the future of global accounting.”

How we see it

We continue to support a single set of high-quality global accounting standards and believe that the endorsement approach described in the SEC staff’s May 2011 paper is a thoughtful and balanced way of moving closer to achieving that ultimate goal.

What’s next

The staff has not specifically requested comments but welcomes feedback on the Final Report.

The Commission said that analysis is required before it makes a final decision on whether and, if so, how to incorporate IFRS into the US financial reporting system. As a result, we do not expect the Commission to make a decision this year.

We continue to support a single set of high-quality global standards, and believe an endorsement approach is a thoughtful and balanced way of achieving that ultimate goal.

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