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whitepaper

What public and private companies should know about the SEC's Roadmap to International Financial Reporting Standards (IFRS)

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Overview

On Nov. 14, 2008, the Securities and Exchange Commission (SEC) released its long-awaited International Financial Reporting Standards (IFRS) "Roadmap," which paves the way for certain domestic registrants (Registrants) who are currently using U.S. generally accepted accounting principles (U.S. GAAP) to use IFRS as issued by the International Accounting Standards Board (IASB). SEC Chairman Christopher Cox, speaking at the 2008 FEI Current Financial Reporting Issues Conference on Nov. 18, 2008, noted "The events of recent months have only underscored the importance of an international language of financial disclosure and transparency. Achieving this would significantly improve investor confidence in global capital markets. Investors could more easily compare issuers' disclosures, regardless of what country or jurisdiction they came from. They could more easily weigh investment opportunities in their own countries against competing opportunities in other markets. And a single set of high-quality standards would be a great boon to emerging markets, because investors could have greater confidence in the transparency of financial reporting."

In the Roadmap, the SEC states, "In this environment, we believe that U.S. investors would benefit from an enhanced ability to compare financial information of U.S. companies with that of non-U.S. companies. The Commission has long expressed its support for a single set of high-quality global accounting standards as an important means of enhancing this comparability. We believe that IFRS has the potential to best provide the common platform on which companies can report and investors can compare financial information."

Along with general comments, the proposed Roadmap contains an invitation to comment on approximately 65 specific questions. The deadline to submit comments on the Roadmap is February 19, 2009.

Summary of the Roadmap

The Roadmap is generally consistent with what was discussed at the SEC's open meeting on Aug. 27, 2008. A critical date included in the Roadmap is 2011, when the SEC will determine whether to continue with the proposed Roadmap for mandatory adoption based on measurement toward achievement of the following milestones:

- Improvements in accounting standards including continued convergence between IFRS and U.S. GAAP and issuing standards that address topics not currently included in existing IFRS
- Funding and accountability of the International Accounting Standards Committee Foundation, which oversees the IASB
- Improvements in the ability of Registrants to use XBRL or other interactive data for reporting to the SEC under IFRS
- Education and training in the U.S. for "investors, accountants, auditors and others"
- Limited early adoption of IFRS (as noted below)

The most important component of the Roadmap is the timeline for mandatory adoption by certain Registrants. The largest public companies who meet certain pre-determined parameters, "where this would enhance the comparability of financial information to investors," will have the option to early adopt IFRS for fiscal years ending on or after Dec. 15, 2009. The SEC estimates that approximately 110 Registrants would meet the eligibility criteria.

If the SEC decides to continue with the Roadmap in 2011, other Registrants would be required to adopt IFRS for fiscal years ending on or after December 15 as follows:

Large accelerated filers	2014
Accelerated filers	2015
Non-accelerated filers	2016

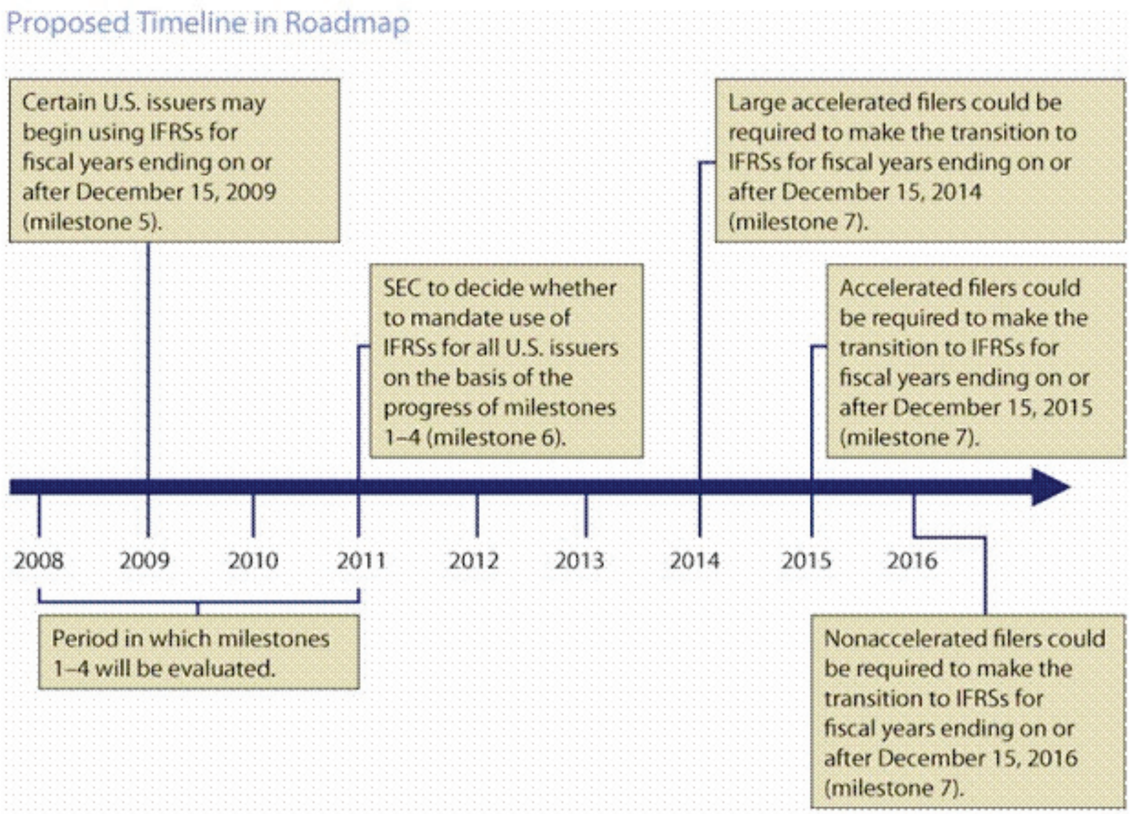
Consistent with their discussion at the Aug. 27, 2008 open meeting, the SEC will require three years of results of operations and cash flows for annual financial statements filed in accordance with IFRS. For example, a large accelerated filer with a December 31 year-end would be required to present a balance sheet as of Dec. 31, 2014 and 2013 in addition to operating results and cash flows for years ending December 31, 2014, 2013, and 2012. As a result, an opening balance sheet would be required to be prepared (but not presented) in accordance with IFRS as of Jan. 1, 2012.

Additionally, if a company elects to early adopt IFRS, it must provide a reconciliation to U.S. GAAP. The SEC is evaluating the following alternatives:

Alternative 1 – Provide a one-time reconciliation from U.S. GAAP to IFRS in a footnote to the audited financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards

Alternative 2 – In addition to Alternative 1, provide an unaudited reconciliation from U.S. GAAP to IFRS in its Form 10-K, which would likely continue to be required until the SEC decides on the ultimate use of IFRS

The Roadmap clearly states the purpose for requiring the reconciliation is to allow the SEC the flexibility to possibly reverse course prior to 2011 and "those issuers who had elected to report under IFRS could more easily return to reporting in accordance with U.S. GAAP."



What companies should do now

Registrants

There are many important decisions that need to be made by public companies before they adopt a new set of accounting standards. These decisions will not only impact accounting and finance but also nearly every function in a company. Management should begin to determine the full impact that IFRS adoption will have on their organization. Many companies are already taking steps to help with conversion planning, including hiring additional internal or external resources to assist with an IFRS conversion impact assessment. Additionally, companies are including IFRS in new legal agreements, such as business purchase agreements containing contingent purchase prices based on a financial measure.

Companies should establish a multi-functional project team to evaluate the impact related to information systems, compensation structures, U.S. GAAP references in existing legal agreements (e.g. debt covenants), investor relations communications, tax implications, and a host of other issues. They should evaluate any ongoing or planned information system changes and consider whether such changes should include an IFRS component, such as a separate IFRS ledger, or a fixed asset system that accommodates the “componentization” of fixed assets required under IFRS. By considering IFRS across the entire organization, companies may be able to make better informed decisions today, which may ultimately result in saving time and money in the future. An initial IFRS adoption assessment could include:

- Evaluation of subsidiary statutory reporting, existing IFRS policies in those locations and development of an inventory to better understand the existing reporting status outside of the U.S.
- Development of an inventory of significant differences between IFRS and U.S. GAAP based on your specific company and industry. Evaluate the impact to IT systems, tax, internal reporting, etc.

- Inventory and assess possible tax impacts. Evaluate existing tax planning strategies and structures in light of IFRS.
- Evaluation of your company's current IFRS skill set within accounting and finance, in the U.S. and around the globe, to determine your next steps for leveraging existing knowledge, training of accounting and finance personnel and, ultimately, tailored training to other departments.
- Assessment of the impact on longer-term finance initiatives and priorities, such as compensation structures, legal agreements, internal reporting and metrics, budgeting and forecasting, or system implementations.
- Development of a timeline for adoption, including key milestones.
- Establishing a steering committee to ensure milestones are met. Participation should be multi-functional and possibly include outside advisors such as accountants, attorneys or consultants.

Privately held companies

While the Roadmap does not directly impact privately held companies in the U.S., these companies should continue to monitor the progression of IFRS adoption by Registrants.

As IFRS financial statements become more widely used in the U.S., all companies should at least have a general awareness of IFRS and begin to consider their own plans for possible adoption of IFRS. Depending on the users (e.g., private equity groups, lenders, foreign owners, etc.) of their financial statements, private companies may decide to convert to IFRS, particularly as U.S. GAAP becomes less widely used. While some jurisdictions around the world currently use two accounting frameworks (IFRS for listed companies and national GAAP for non-listed entities), most believe that U.S. GAAP will eventually be replaced altogether by IFRS. Whether adopting IFRS voluntarily or out of necessity, private companies can leverage the adoption experiences of public companies.

Privately held companies cannot ignore the adoption of IFRS in the U.S. and across the globe. Privately held companies planning certain transactions such as an IPO or acquisition of companies that use IFRS should closely monitor the progression of IFRS adoption. An understanding of IFRS will aide in analyzing financial information (for example, during performance of due diligence prior to an acquisition).

While accounting standards should generally not change a company's economic decisions, these factors should at least be considered during the planning process for such transactions, including evaluation of financial statements and key metrics.

Learn from others

Similar to how some companies implemented Section 404 of the Sarbanes-Oxley Act, Registrants can and should learn from each other when adopting IFRS. Accelerated filers and non-accelerated filers should benefit from large accelerated filers' experiences. All U.S. Registrants can learn from the experiences of European Union listed companies that have already gone through mandatory conversion to IFRS. Companies in the European Union who converted to IFRS in 2005 learned many lessons, including their underestimation of the level of effort required to adopt IFRS, the broad impact across their organization, and the missed opportunities to get it right the first time.

Many of those companies are now modifying what they originally thought would be a "quick fix." CFOs, controllers and other constituents may want to periodically meet in round-table groups as a forum to consider important issues and share best practices.

Don't wait - act today

An IFRS adoption assessment would help a company identify accounting policy alternatives, which would then enable management to evaluate and identify the right accounting policies to fit their unique transactions. In the near term, an IFRS adoption assessment will allow companies to evaluate the long-term impact of adoption, look for opportunities to streamline processes to save costs, and determine an appropriate timeline and milestones for adoption based on their unique facts and circumstances.