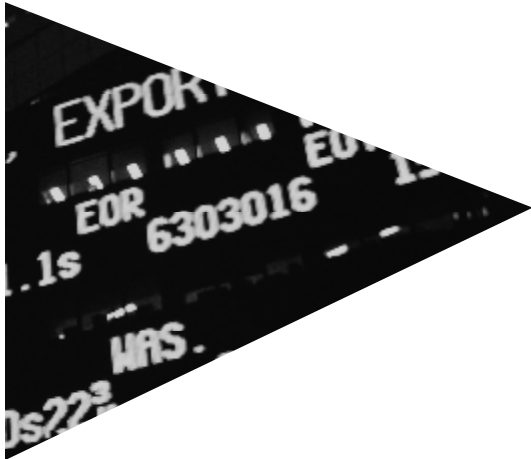


Hot Topic

Update on major accounting and auditing activities



SEC proposes roadmap for IFRS adoption in the US

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Introduction

On 27 August 2008, the SEC approved for public comment its long awaited proposed "Roadmap" related to the eventual use of International Financial Reporting Standards (IFRS) by US companies. The proposed Roadmap anticipates mandatory reporting under IFRS beginning in 2014, 2015 or 2016 depending on the size of the issuer and provides for early adoption in 2009 by a small number of very large companies that meet certain criteria. And it is possible that the SEC will later decide to permit other companies to early adopt at some point in time prior to the mandatory date of conversion. The roadmap also identifies several milestones that the SEC will consider in making its decision in 2011 about whether to proceed with mandatory adoption of IFRS.

With the issuance of the proposed Roadmap, the SEC took its most significant step toward the adoption of a single set of high quality global accounting and financial reporting standards that everyone can use. The dominant language of financial reporting worldwide is fast becoming IFRS

and we applaud the SEC for approving for public comment the proposed Roadmap.

Background

On 7 August 2007, the SEC published a Concept Release that discussed whether U.S. registrants should be provided with an option to prepare their financial statements in accordance with IFRS as published by the International Accounting Standards Board (IASB). This Concept Release was issued in the midst of the SEC's proposing, and ultimately adopting, a rule change to allow Foreign Private Issuers (FPIs) to file financial statements prepared using IFRS as published by the IASB without any reconciliation to US GAAP.

Although concerns were raised over issues around implementation, respondents to the request for comment on the Concept Release generally expressed strong support for a required, not just optional, move to IFRS. In addition to the request for comment on the Concept Release, the SEC hosted a series of roundtables on the topic in December 2007 and August 2008. In those roundtables participants shared views on a range of topics related to the acceptance of financial statements prepared in accordance with

IFRS, instead of US GAAP, in filings with the SEC. Strong support for a move to IFRS generally was expressed in these forums as well.

The widespread support for the use of IFRS led to today's announcement regarding the issuance of the proposed Roadmap.

The Roadmap

The SEC approved for public comment a Roadmap outlining the milestones and conditions that, if met, would lead to the use of IFRS in the U.S. Under the Roadmap, the SEC would expect to make a final decision in 2011 on whether to proceed to a final rule.

It is anticipated that IFRS reporting would be required and phased in as follows for filings for the years indicated:

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

The Roadmap is expected to outline what companies would need to provide in their first set of IFRS financial statement filed with the SEC. Consistent with existing requirements in Regulation S-X for US GAAP, the SEC staff stated that three years of audited financial statements would be required in the first year of IFRS reporting. Assuming a 2014 conversion date, this means a calendar year large accelerated filer would need to include in its filings for 2014: balance sheets as of 31 December 2014 and 2013 and income statements, cash flow statements and statements of changes in equity for the years ended 31 December 2014, 2013 and 2012. In addition, IFRS 1 *First-time Adoption of International Financial Reporting Standards* would require the presentation of the "opening balance sheet" as of the date of transition to IFRS (in this example - 1 January 2012).

This transition approach would be different from what the SEC required of FPIs in their initial IFRS filings. For those filings, the SEC

provided transition relief by requiring only two years of income statements, cash flow statements and statements of changes in equity.

Milestones

The Roadmap is expected to include the following milestones and conditions:

Improvements in accounting standards: The SEC expects the Financial Accounting Standards Board (FASB) and the IASB to continue to work together and progress towards convergence of IFRS and US GAAP. An updated Memorandum of Understanding between the FASB and the IASB outlines projects that are expected to be completed through 2011.

Accountability and funding of IASCF: To date, the International Accounting Standards Committee Foundation (IASCF) has financed IASB operations largely through voluntary contributions from companies, accounting firms, international organizations and central banks. The Roadmap is expected to contain a milestone that would require the IASCF to develop a funding mechanism that will enable it to remain a stand-alone, private-sector organization with the necessary resources to conduct its work in a timely fashion. The SEC staff stated that the IASCF has made significant progress towards the development of such a funding mechanism.

Improvement in the use of interactive data (XBRL) for IFRS: The SEC has invested heavily in XBRL and expects that IFRS information will be capable of being provided to the SEC in interactive data format. The International Accounting Standards Committee (IASC) Foundation has issued a version of an IFRS taxonomy, which the SEC would consider in evaluating the status of this milestone.

Improvements in IFRS education and training: Before making a final decision to move towards IFRS, the SEC would consider the state of preparedness of US issuers,

auditors and users, including the extent and availability of IFRS education and training. The SEC commented that is aware of efforts being made by public accounting firms and academia in this regard.

Limited early use: The Roadmap will contain a provision that would permit certain US companies meeting specified criteria to file IFRS financial statements with the SEC for years ending on or after 15 December 2009. Based on a preliminary assessment, the SEC staff stated that approximately 110 companies across 34 industries would qualify for this provision. In order to be eligible for this provision, a US issuer must meet the following criteria:

- Be one of the 20 largest companies (based on global market cap) in its industry
- Participate in an industry in which the use of IFRS is more prevalent than any other basis of accounting

The Roadmap also will contain guidance on how an issuer should assess whether or not it meets these criteria as well as a description of the process by which an issuer must obtain a "no objection" letter from the SEC staff in order to be eligible to early adopt IFRS in its filings with the SEC.

For companies that meet these criteria, the SEC also is expected to require either a one-year reconciliation of the issuer's financial statements from IFRS to US GAAP, in accordance with IFRS 1, or an unaudited three-year reconciliation of the issuer's financial statements from IFRS to US GAAP until such time as the use of IFRS becomes mandatory. The proposed Roadmap will seek public comment on these two alternatives.

Timing of proposed rulemaking: Based on comments made at today's meeting, the SEC indicated it would make its final decision regarding the mandatory use of IFRS in 2011 based on whether, in the SEC's view, adoption of IFRS is in the public interest and would benefit investors. The SEC believes

this timing would give companies sufficient notice to begin producing IFRS information for internal purposes in 2012.

Sequenced mandatory use of IFRS: As previously mentioned, the Roadmap anticipates mandatory use of IFRS beginning with filings for 2014 for large accelerated filers. Smaller filers would follow in 2015 and 2016.

The SEC commented that it would later possibly decide to permit other companies (in addition to any of the 20 largest companies in an industry that meet the defined eligibility criteria) to early adopt IFRS prior to the mandatory date of adoption.

Call to comment

Once issued, the Roadmap will be open for a comment period of 60 days. U.S. issuers and investors should study the Roadmap carefully as its effects will be significant. The conversion to IFRS will have pervasive effects on the U.S. capital markets requiring changes in the way preparers prepare, and users use, those financial statements, as well as more fundamental changes in the way the U.S. educates future accountants and business people. These types of changes require participation by all constituents in the debate and all are encouraged to comment on the proposals.

The future is now

We at Ernst & Young have been saying for some time now that the conversion to IFRS for at least public companies in the U.S. is a matter of "when and how" and not "if." Today's announcement of the proposed Roadmap is a big step towards the realization of that statement. At first glance, 2014 may sound like it's a long way off. However, many companies have already taken the first steps towards preparing for the inevitable conversion to IFRS. Although accounting driven, this change will affect many aspects of a company outside of the finance function such as information technology, human resources, and investor

relations, to name but a few. It is important that companies begin now to plan and address all pertinent issues surrounding the conversion to IFRS in a manner that fosters efficiency, promotes meaningful accounting elections, and enhances the overall quality of financial reporting.

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