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SEC Roundtables on Using IFRS in the U.S.

Panelists at recent SEC Roundtables generally agreed that the SEC should establish a timetable ending in a specific date at which U.S. public companies would be required to file IFRS financial statements, opposed granting the option to file using IFRS for an unlimited period, and strongly supported the goal of globally-accepted, high-quality IFRS.¹ The Roundtables are follow-on activities to the SEC's Concept Release that asked whether U.S. public companies should be permitted to file IFRS financial statements.²

The 26 panelists included U.S. financial-statement preparers, auditors, and credit analysts; U.S. and foreign investment bankers and investment-fund managers; representatives of the FASB, other standard setters, and stock exchanges; foreign regulators; and academics.

Approaches to Adopting IFRS in the U.S.

Panelists generally agreed that U.S. public companies should at some future time be required to file financial statements prepared in accordance with IFRS. Some panelists suggested that a mandate for IFRS filings be preceded by a short period during which both IFRS and U.S. GAAP filings are permitted. Many supported introducing mandatory IFRS filings in phases based on company size. They agreed, however, that the incentive to adopt IFRS before being required to do so would diminish as the period in which it is optional grew longer. They also agreed that an option to file IFRS financial statements would add to the complexity of financial reporting for financial-statement users by reducing the comparability of financial statements. Some panelists believe that permitting this added complexity indefinitely could add to the costs of capital formation.

Panelists differed on the date at which IFRS filings should be required. Suggestions ranged from 2010 to 2015. Foreign panelists noted that the European Union underwent a three-year transition period before adopting IFRS in 2005. They noted that many countries within the EU had to adjust to significant differences between their national GAAPs and IFRS during the transition, citing in particular significant differences within the accounting requirements for share-based payments, income taxes, and derivatives. Because the FASB and IASB

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¹ The Roundtables were held December 13 and 17, each Roundtable with a different set of panelists. For a list of participants, see <http://sec.gov/spotlight/ifrsroadmap.htm>.

² SEC Release No. 33-8831, Concept Release On Allowing U.S. Issuers To Prepare Financial Statements In Accordance With International Financial Reporting Standards, August 7, 2007, available at www.sec.gov.

have achieved some degree of high-level convergence in these areas, the foreign panelists argued that the U.S. should experience a smoother, more rapid transition to mandatory IFRS than did the EU.

The Breadth of Transition Efforts. Panelists with experience in IFRS conversion projects emphasized that the task should not be viewed solely as an accounting project. It is much broader, affecting internal systems and controls, financing and contractual agreements, operations, and internal and external communications. Large, multinational companies are likely to need to plan and manage a transition over two or more years.

Panelists agreed that disclosures prior to adoption and in the period of adoption would be critical to communicating the effect of adopting IFRS to financial-statement users. IFRS 1 prescribes detailed disclosures in the year of adoption.³ Some panelists recommended that the SEC develop additional disclosure requirements for the transition period about the anticipated period of adoption and its consequences.

Judgments and the Need for Disclosure. IFRS's application guidance is less detailed than U.S. GAAP's, which prompted many panelists to point out that preparers and auditors would have to exercise judgment in additional areas when applying IFRS. Informative disclosures would be needed to allow users to understand significant judgments made in applying the standards, and regulators would be called upon to respect reasonable judgments that are supported by appropriate analysis and conclusions.

Benefits and Costs

Panelists foresaw that adopting IFRS would facilitate comparing U.S. companies' financial statements to their global competitors'. U.S. investors could benefit because of increasing U.S. investments in foreign companies. Some panelists pointed out that mandatory IFRS could reduce the cost of capital formation for U.S. companies by giving them more efficient access to global capital and could increase the competitiveness of the U.S. capital markets.

The panelists acknowledged the significant one-time costs of converting to IFRS, citing costs to adapt systems, train personnel, review and renegotiate financing and other contractual agreements, develop new accounting policies, and educate key investors and analysts. However, the panelists also noted that U.S. multinational companies adopting IFRS may benefit from being able to use a common system globally, enhanced internal controls, and reduced complexity in cross-border financial reporting.

Training and Education. Panelists agreed that the cost and efforts to develop more in-depth knowledge of IFRS in the U.S. would be imposed on preparers, users, auditors, regulators, and colleges and universities. University accounting departments would need to incorporate IFRS into their curricula, which may be a difficult task considering the current lack of textbooks and, in some states, the lack of credit for IFRS courses for purposes of meeting CPA requirements.

Panelists agreed that a major challenge in training preparers, auditors, and users in IFRS would be timing the training because

the new skills would likely deteriorate if not applied relatively quickly after the knowledge is obtained. They thought a detailed transition plan with specific dates for adopting IFRS in the U.S. would enable preparers, auditors, and users to determine the optimal time to conduct training, based on their individual circumstances.

IASB Funding and Staff

Panelists noted the need to address operational readiness in order for the IASB to be successful in the long-term as the global accounting standard setter for a significantly larger constituency. They encouraged the SEC to work with other regulators and the IASB's Foundation to create a more permanent funding mechanism for the IASB that shares the Board's cost in proportion to the size of the capital markets that use IFRS and to significantly increase the IASB's resources and staffing levels. The SEC was also encouraged to work with other regulators to ensure the IASB's independence.

XBRL

Some panelists who are members of the SEC's voluntary program to submit XBRL information said they had completed the substantial task of mapping their financial-statement elements to the U.S. GAAP XBRL taxonomy, but would have to remap with the IFRS XBRL taxonomy in order to develop XBRL reports of IFRS financial statements.⁴ Some questioned whether domestic companies filing using IFRS would be able to use the existing IFRS XBRL taxonomy, which is much less extensive than the comprehensive U.S. GAAP XBRL taxonomy.

³ IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

⁴ The U.S. GAAP XBRL taxonomy is available at xbrl.us/USGAAPREVIEW/Pages/default.aspx. XBRL stands for Extensible Business Reporting Language.



This report is based on attendance at the roundtables by KPMG personnel and is not an official account of what took place. Official transcripts of the roundtables are available at <http://sec.gov/spotlight/ifrsroadmap.htm>. The descriptive and summary statements above are not intended to be a substitute for the text of any potential or cited requirements. Reporting entities complying with applicable requirements or complying with SEC filing requirements should consult the texts of the requirements, the particular circumstances to which the requirements are to be applied, and their accounting and legal advisors.

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