

IFRS and U.S. Public Companies: Considerations for the Audit Committee

While International Financial Reporting Standards (IFRS) may not be around the corner, there are strong indications that U.S. public companies may one day be required to file IFRS financial statements. The SEC's August 2007 concept release on the potential use of IFRS by domestic public companies, the elimination of the U.S. GAAP reconciliation for foreign private issuers using IFRS, and the SEC Roundtable series in December 2007 all point to the momentum toward IFRS.

Due to the extensive and growing adoption of IFRS around the world (more than 100 countries either require or allow the use of IFRS), IFRS has become the most achievable approach for a single set of high-quality and globally-accepted standards for financial reporting. Although it is generally agreed that the filing of IFRS financial statements by domestic issuers would add to the complexity of financial reporting for financial-statement users for a period of time, the promise of greater financial-statement comparability, reduced complexity for preparers and users, and reduced capital-raising costs have added momentum to the global IFRS movement.

Audit committees should consider – with input from management and auditors – the various challenges, costs and benefits, and wide-reaching implications of a movement toward IFRS, such as:

- Conversion to IFRS would impact internal systems, operations, and controls; communications and operations with external companies; the review and possible renegotiation of financial and contractual agreements; the training of personnel; and the development of new accounting policies by companies.
- The cost and time to transition a company to IFRS reporting could be significant and may take several years.
- The adoption of IFRS would enhance the comparability of financial statements filed by U.S. companies to their global competitors, which could facilitate cross-border investments and therefore provide access to global capital and increase capital market competitiveness.
- Multinational companies may benefit from the use of a common financial reporting system globally, with similar internal controls, and the reduced complexity of multinational financial reporting.
- The professional judgments that preparers and auditors would have to make under IFRS would have to be accepted by users and regulators, assuming they are reasonable, supportable, and accompanied by the appropriate disclosures.
- A critical mass of in-depth IFRS knowledge would have to be developed and would need to include a wide variety of groups, including preparers, users, auditors, regulators, and educators.

Anticipated Benefits of IFRS Convergence

- A single set of high-quality globally-accepted accounting standards
- A more principles-based approach
- Increased comparability and transparency of financial information among companies and across global capital markets
- More efficient and cost-effective access to cross-border capital markets
- Reduced complexity for users of financial statements

Additional Resources

Defining Issues®, November 2007, No. 07-45: SEC Roundtables on Using IFRS in the U.S.

Defining Issues®, November 2007, No. 07-36: SEC Eliminates U.S. GAAP Reconciliation for Foreign Private Issuers Using IFRS

Defining Issues®, November 2007, No. 07-34: How the IFRS Movement Will Affect Financial Reporting in the U.S.

www.us.kpmg.com/definingissues

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
www.sec.gov

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