

Hot Topics



Key Questions for the Board and Audit Committee to Raise with the C-Suite

- Has the company made an inventory of its current IFRS reporting requirements, if any?
- What is the level of IFRS knowledge within the company, both domestically and globally?
- Are the company's competitors already reporting under IFRS, or is there an expectation that they would switch to IFRS if given the choice in the United States?
- What would be the impact on the company of a possible IFRS requirement in the United States?
- Has the company assessed the costs and benefits of adopting IFRS?

(From "IFRS: What the Board Needs to Know," published in *Directors Monthly* by the NACD)

IFRS: Is Your Firm Ready for the Shift?

What the Future Holds...

The SEC has laid the groundwork for advancing International Financial Reporting Standards (IFRS) in the United States. The proposed IFRS roadmap, released on August 27, is a multi-year plan setting out several milestones that, if achieved, will ultimately lead to the use of IFRS by all U.S. issuers. The plan would allow certain U.S. issuers to begin using IFRS for fiscal years ending on or after December 15, 2009.

A U.S. issuer would have the option to begin using IFRS if two criteria are met: (1) the issuer is among the 20 largest companies globally by market capitalization in its industry, and (2) IFRS, as published by the International Accounting Standards Board, is the most common set of accounting standards used for financial reporting at these 20 largest companies. The SEC estimates that 110 companies in 34 industries currently would be eligible under these criteria. Companies using this option would still need to provide limited U.S. generally accepted accounting principles (GAAP) financial information.

The roadmap provides specific milestones that would need to be met for mandatory transition to IFRS to begin in 2014, and calls for the SEC to meet in 2011 to evaluate whether these milestones have been reached. If so, it is expected that the SEC would then issue a final rule requiring mandatory adoption through a staged approach. The mandatory transition would apply for fiscal years ending on or after December 15, 2014, for large accelerated filers; fiscal years ending on or after December 15, 2015, for accelerated filers; and fiscal years ending on or after December 15, 2016, for all other filers. The proposed roadmap and rule changes will have a comment period of 60 days. More details about the specific proposed rule can be found in the August 28 *Heads Up* article titled "[SEC Proposes Option to Use IFRSs and a Roadmap to Mandatory Transition](#)."

As noted by SEC Chairman Christopher Cox, "The world's capital markets have long searched for a single set of high-quality accounting standards that could be used anywhere on earth. An international language of disclosure and transparency 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."

The comments by Chairman Cox are on point, and board members must consider the strategic implications of IFRS for their companies and for investors, as well as its implications for the composition of the audit committee and full board. The National Association of Corporate Directors (NACD) recently published a Deloitte-authored article in *Directors Monthly* titled "[IFRS: What the Board Needs to Know](#)." This publication includes key considerations for directors in preparing for the transition to IFRS. Most notable is an assessment of what accounting bases are applied across the company, the required timeline to prepare for transition, and an understanding of how board education will be critical to the process. The significance of the roles and responsibilities of board members in "leading from the top" cannot be overstated during this transition. To ensure that you and your board are ready, start asking the tough questions today, so that the shift lurking around the corner doesn't leave you lagging behind your peers.