

## SEC Holds Roundtable Discussions on IFRSs

**July 8, 2011** — Yesterday, the SEC held roundtable discussions with representatives from investors, smaller public companies, and regulators to discuss benefits and challenges related to potentially incorporating IFRSs into the U.S. financial reporting system. The discussions touched on many topics in the SEC's May 26, 2011, staff paper "Exploring a Possible Method of Incorporation,"<sup>1</sup> which presented a possible framework for incorporating IFRSs into the U.S. financial reporting system.

### Investors

The investor panel featured representatives from Standard & Poor's, Morgan Stanley, Moody's Investors Service, Duff & Phelps, California Public Employees' Retirement System, The Allstate Corporation, and Grace & White Inc.

All panelists strongly supported a single set of high-quality globally accepted accounting standards and agreed that having a "single global language" would significantly benefit investors. Some panelists indicated that investors in the United States have experience with IFRSs, and in making appropriate investment decisions, they adjust financial information for differences between IFRSs and U.S. GAAP. It was noted that such investment decisions, however, should not be affected by whether a company reports under IFRSs or U.S. GAAP.

Concerns were raised about the IASB's governance and funding, in particular regarding the fact that financial reporting may, in some countries, be serving public policy interests rather than those of investors. It was emphasized that it is crucially important for the IASB to have a reliable and transparent standard setting processes in place, similar to those of the FASB, that involve (1) formal continuous feedback from all constituents, (2) rigorous testing and analysis of the results, and (3) a means of determining that the standards are comprehensive and meet the needs of financial statements users.

Concerns were also raised regarding the uniform application of principles-based accounting standards and the IASB's interpretative mechanisms. Some panelists suggested, however, that uniform application of IASB standards around the world should not be a precondition for incorporating IFRSs into the U.S. financial reporting system. They noted that a global financial reporting language based on IFRSs is better than multiple financial reporting languages (i.e., retaining both U.S. GAAP and IFRSs) even if that global financial reporting language has regional dialects. Investors stressed the importance of the IASB's having a responsive interpretative mechanism subject to a formal standard-setting process, and they noted that local interpretation of IFRSs could lead to diverse application of IFRSs globally. However, some suggested the FASB would need to consider providing additional U.S. interpretations if the IASB does not provide interpretations on important issues. In addition, some investors noted that interpretation by certain regulators (e.g., the PCAOB and the SEC) could lead to diverse application of accounting standards. Investors also indicated that they preferred retrospective application of the standards.

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<sup>1</sup> See Deloitte's June 1, 2011, [Heads Up](#) on the staff paper.

## Smaller Public Companies

Panelists representing smaller public companies (and audit firms that specialize in audits of smaller public companies) had differing views about whether IFRSs should be incorporated into the U.S. financial reporting system. All panelists expressed concern about the lack of resources and the potential implementation costs, and some perceived little or no benefit to implementing IFRSs.

When discussing when and how to transition to IFRSs (if the SEC decides to incorporate IFRSs), panelists had significant concerns with the model that prolongs implementation of standards (staggered approach). Most supported a “big bang approach” if mandated in a realistic time frame. A staggered transition was perceived as more costly. Panelists also emphasized the importance of completing the FASB’s and IASB’s current convergence projects before the SEC sets the date for IFRS incorporation.

One panelist suggested that smaller public companies be given the option rather than the requirement of transitioning to IFRSs. Panelists had differing views on whether to allow early adoption.

## Regulatory Environment

The regulatory panel included representatives from the Federal Energy Regulatory Commission, the National Association of Insurance Commissioners, the National Association of State Boards of Accountancy, the Office of the Comptroller of the Currency, and the Federal Housing Finance Agency. Like the smaller public company panelists, regulatory panelists had differing views on the appropriateness of incorporating of IFRSs into the U.S. financial reporting system. Their discussion highlighted current use of U.S. GAAP financial information in the various regulatory activities the panelists undertake, the steps required and potential timing to make changes in the regulations, and costs and benefits of potential IFRS incorporation. As did representatives in the other panels, regulatory panelists thought that sufficient time needed to be provided for the transition to IFRSs and that the needs of U.S. investors should be carefully considered.

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