

**Completing the February 2006 Memorandum of Understanding:
A progress report and timetable for completion
September 2008**

After their joint meeting in September 2002, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued the Norwalk Agreement, in which they “each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and the IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained.”

At their meetings in April and October 2005, the FASB and the IASB reaffirmed that development of a common set of high quality global standards remains a strategic priority of both the FASB and the IASB.

In February 2006, the FASB and IASB issued a Memorandum of Understanding (MoU). The MoU set forth the relative priorities within the FASB-IASB joint work programme in the form of specific milestones to be reached by 2008. That MoU was based on three principles:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB’s and the IASB’s resources—instead, a new common standard should be developed that improves the financial information reported to investors.
- Serving the needs of investors means that the Boards should seek convergence by replacing standards in need of improvement with jointly developed new standards.

Based on the progress achieved by the Boards through 2007 and other factors, the SEC removed the reconciliation requirement for non-U.S. companies that are registered in the United States and use IFRSs as issued by the IASB. The European Commission is proposing that the European Union eliminate the possible need for U.S. companies with securities registered in European capital markets and with financial information prepared in accordance with U.S. GAAP to reconcile their accounts to IFRSs or provide other compensating disclosures. Additionally, a number of countries have adopted IFRSs on the basis that companies using IFRSs would be able to access capital more efficiently in the major economies throughout the world, which is now possible.

In developing the MoU published in 2006, the Boards agreed on priorities and established milestones only to 2008, even though they knew that many of the major standards level projects would not be complete by that date. At their joint meeting in April 2008, the Boards again affirmed their commitment to developing common, high quality standards, and agreed on a pathway to completing the MoU projects, including projected completion dates.

The following is a description of the agreed-upon pathway for completing the MoU projects that discusses separately short-term convergence projects and major joint projects. Also described is the relationship between those MoU projects and the joint conceptual framework project, which is not formally part of the MoU work plan.

Short-term Convergence

The MoU set the goal of concluding by 2008 whether major differences in a few focused areas should be eliminated through one or more short-term projects and, if so, completing or substantially completing work in those areas. The status of those short-term projects follows:

- **Projects completed:** The FASB and the IASB issued standards on a number of short-term convergence projects. Bringing U.S. GAAP into line with IFRSs, the FASB issued new or amended standards that introduced a fair value option (SFAS 159) and adopted the IFRS approach to accounting for research and development assets acquired in a business combination (SFAS 141R). Converging IFRSs with U.S. GAAP, the IASB published new standards on borrowing costs (IAS 23 revised) and segment reporting (IFRS 8).
- **Ongoing short-term convergence:**

The IASB published an Exposure Draft on joint arrangements (joint ventures) in September 2007. The IASB has begun considering the comments to the proposal soon and expects to release a final standard at the beginning of 2009. The IASB plans to publish a proposed standard on income taxes that would improve IAS 12, *Income Taxes*, and eliminate certain differences between IFRSs and U.S. GAAP.

The FASB plans to publish proposed standards on accounting and reporting for subsequent events in the second half of 2008. In the second half of 2008, the FASB will review its strategy for short-term convergence projects in light of the possibility that some or all U.S. public companies might be permitted or required to adopt IFRS at some future date. As part of that review, it will solicit input from U.S. constituents by issuing an Invitation to Comment containing the IASB's proposed replacement of IAS 12. At the conclusion of that review, it will decide whether to undertake projects that would eliminate differences in the accounting for taxes, investment properties, and research and development by adopting the relevant IFRS standards (IAS 12, as revised, IAS 40, and IAS 38).

- **Short-term convergence work deferred:** The Boards have chosen to defer completing projects on government grants and impairment until other work is complete.

Major Joint Projects

The MoU published in February 2006 set forth milestones to be achieved on major joint projects by 2008. At their April 2008 joint meeting, the Boards agreed on priorities and milestones to be achieved on those projects by 2011. The Boards also agreed that the goal of joint projects is to produce common, principles-based standards, subject to the required due process.

In seven of the 11 areas identified by the MoU, the Boards have either completed a common standard, reached similar conclusions, or are currently working jointly to develop a common, high quality standard. In the other four areas, the Boards are at different stages of developing their approach to the topic to address immediate areas of concern. Both Boards are following each other's progress to minimize differences in the near term and ease development of common standards over the longer term. For example, each Board is working separately to

deliver timely improvements to their standards on consolidations and derecognition in response to the credit crisis. At the same time, both Boards will work together in 2008 to develop an approach that will ultimately lead to a common standard.

Projects where the Boards are currently working jointly on areas identified for improvement in IFRSs and US GAAP				
Convergence topic	Progress expected to be achieved by 2008, as stated in the 2006 MOU	Current status	Estimated completion date	Next step(s)
1. Business combinations	To have issued converged standards (projected for 2007), the contents and effective dates of which to be determined after taking full account of comments received in response to the Exposure Drafts.	Project completed and common standards were published.	Project completed in 2007. FAS 141R was issued in 2007. The revisions to IFRS 3 were issued in 2008.	Post-implementation review after the revised standards have been applied for two years [review planned for the first half of 2012]
2. Financial instruments (replacement of existing standards)	To have issued one or more due process documents relating to the accounting for financial instruments.	IASB: Discussion paper published in 2008. FASB: Invitation to comment published on IASB discussion paper. FASB issued Exposure Draft to simplify hedge accounting in mid-2008.	To be determined	Decision by late 2008 regarding the nature and scope of any proposed improvements to U.S. GAAP and IFRS, after considering comments on the IASB discussion paper and on the FASB Exposure Draft to simplify hedge accounting.
3. Financial statement presentation	To have issued one or more due process documents on the full range of topics in this project.	IASB: Issued a revision to IAS 1 in 2007. Joint Board deliberations are on-going.	2011	Preliminary views/discussion paper in third quarter of 2008
4. Intangible assets	To have considered the results of the IASB's research project and made a decision about the scope and timing of a potential agenda project.	Inactive—the Boards decided in 2007 not to add a project to their joint agenda	Not part of the active agenda.	Not part of the active agenda.
5. Leases	To have considered and made a decision about the scope and timing of a potential agenda project.	Project added to the joint agenda. Board deliberations are ongoing.	2011	Preliminary views/discussion paper to be published in the second half of 2008
6. Liabilities and equity distinctions	To have issued one or more due process documents relating to a proposed standard.	Preliminary views/discussion paper published in the first half of 2008.	2011	Exposure Draft in 2009
7. Revenue recognition	To have issued one or more due process documents relating to a proposed comprehensive standard.	Joint Board deliberations are on-going.	2011	Preliminary views/discussion paper to be published in fourth quarter of 2008.

Areas identified for improvement in IFRSs and US GAAP, where the Boards are at different stages in standard development and will seek a common standard				
Convergence topic	Progress expected to be achieved by 2008, as stated in the 2006 MOU	Current status	Estimated completion date	Next step(s)
8. Consolidations	To implement work aimed at the completed development of converged standards as a matter of high priority.	Both Boards to publish Exposure Drafts in 2008.	Both Boards to issue Final standards in 2009-2010.	Decision in 2008 on a strategy to develop a common standard.
9. Derecognition	To have issued a due process document relating to the results of staff research efforts.	Both Boards to publish Exposure Drafts in 2008 or early 2009.	Both Boards to issue Final standards in 2009-2010.	Decision in 2008 on a strategy to develop a common standard.
10. Fair value measurement	To have issued converged guidance aimed at providing consistency in the application of existing fair value requirements.	FASB: Completed standard. IASB: Issued Discussion Paper in 2007. Board deliberations are ongoing.	FASB: Standard issued in 2006. IASB: 2010	IASB: Exposure Draft in first half of 2009 FASB: Review FAS 157 in light of IASB's deliberations.
11. Post-employment benefits (including pensions)	To have issued one or more due process documents relating to a proposed standard.	FASB: Completed first stage of FASB-defined project IASB: Discussion paper issued in March 2008	IASB: 2011	IASB: Exposure draft in 2009, following consideration of comments on discussion paper

Conceptual Framework

In setting this work programme initially in 2006 and again in updating the timetable in 2008, the Boards noted that the major joint projects will take account of the ongoing work of the FASB and the IASB on their joint project to improve and to bring about convergence of their respective Conceptual Frameworks. When updating the timetable in 2008, the Boards highlighted their continuing efforts to address, as part of the joint concepts project, issues relating to the range of measurement attributes (including cost and fair value) used in accounting standards.

Acknowledging Consultation Requirements

The FASB and the IASB also recognise the need to undertake this work in a manner that is consistent with their established due process, including consultation with interested parties on their ongoing joint efforts before reaching conclusions. Therefore, the timetable for completion is subject to change depending on input received throughout a project's development.

Staggering of Effective Dates

Both Boards recognise that the work plan above anticipates the completion of several projects in 2010 and 2011. The Boards will consider staggering effective dates of standards to ensure an orderly transition to new standards. Consistent with its current practice, the IASB will consider permitting early adoption of its standards.

Other Topics Not on the MoU Work Programme

The FASB and the IASB note that their work programmes (including their joint work programme) are not limited to the items listed above, but remain committed to completing the MoU projects because they represent a significant step toward the goal of a common set of high quality standards. Both Boards place priority on the topics set out in the MoU, but will continue to devote resources, as appropriate, to other active projects and respond to other market demands.