

August 17, 2007
Vol. 14, Issue 16

In This Issue:

- The Global Shift in Accounting and Financial Reporting
- Are IFRSs Right for Your Company?

U.S. issuers may have a choice of using either IFRSs or U.S. generally accepted accounting principles.

The Shift Toward IFRSs and Its Impact on U.S. Companies

by D. J. Gannon, Randall Sogoloff, and Rowena Madla, Deloitte & Touche LLP

The Global Shift in Accounting and Financial Reporting

On August 7, 2007, the U.S. Securities and Exchange Commission (SEC) issued a [concept release](#)¹ that solicits input on whether U.S. issuers should be permitted to prepare their financial statements using international financial reporting standards (IFRSs) as published by the International Accounting Standards Board (IASB). On the basis of the responses received, by 2010 or 2011, U.S. issuers may have a choice of using either IFRSs or U.S. generally accepted accounting principles (GAAP) for public reporting purposes in the United States. Questions the SEC asks in its concept release include the following:

- **Effect on U.S. Public Capital Markets** — What is the overall effect on U.S. public capital markets if some U.S. issuers report in accordance with IFRSs while others continue to report in accordance with U.S. GAAP? Do market participants want to use and understand financial statements prepared in accordance with IFRSs? Should there be restrictions on who may prepare IFRS financial statements?
- **Effect on Standard Setting** — Will allowing IFRSs and U.S. GAAP financial statements affect the convergence process undertaken by the IASB and Financial Accounting Standards Board (FASB)? Would the ability to prepare IFRS financial statements affect the role of the FASB or the development of U.S. GAAP? Are market participants confident in the IFRS standard-setting process and the SEC's indirect regulatory role in that process?
- **Implementation Matters** — Because there is less experience in preparing IFRS financial statements in the U.S. market, what implementation concerns should be considered? Specifically, questions are posed regarding (1) education and training, (2) application and regulation, (3) auditing, and (4) transition and timing.

For U.S. issuers, this latest development is a turning point in the long debate over accounting and financial reporting standards. The financial reporting environment has evolved over the past several years. The globalization of the world's capital markets has caused a shift toward global standards and benchmarks that are based more on "principles" or "objectives" than on detailed "rules." Ultimately, these trends are affecting how standards are developed, written, and applied. Thus, companies must look at accounting and financial reporting in a new way, which could have a significant impact on a company's culture. Companies should not underestimate the impact of IFRS adoption, since it typically affects all aspects of a company's business, including accounting policies and estimates,

¹ SEC Concept Release No. 33-8831, *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards*.

financial statement disclosures, financial reporting systems and internal controls, taxes, treasury and cash management, and legal and debt covenants. A few years ago, IFRSs were a distant possibility. Today, every country is moving toward IFRSs in some way, shape, or form.

National Governments — Mandating Change

The European Union (EU) has led the way in making IFRSs compulsory. In May 2002, the European Parliament ruled that the consolidated financial statements of virtually all companies domiciled in the EU whose public shares are listed on an EU stock exchange must be prepared in accordance with IFRSs beginning on January 1, 2005. This decision affected more than 7,000 companies that used their home country's GAAP and accelerated the transition to IFRSs by corporations on six continents. Today, more than 100 countries either require or allow the use of IFRSs. Meanwhile, other countries have taken the convergence approach, aligning local GAAP with IFRSs.

The United States — Moving Forward With IFRSs

In the United States, the “acceptance” of IFRSs has almost always been debated in the context of cross-border offerings and listings involving “foreign private issuers.” Current SEC rules allow a foreign private issuer to prepare its financial statements using either local accounting standards or IFRSs, as long as a “reconciliation” to U.S. GAAP is included in the financial statements filed with the SEC. A recent flurry of activity by the SEC is a wake-up call for many involved in financial reporting that IFRSs are no longer just an issue for foreign private issuers. The following recent actions in the United States (in addition to the issuance of the concept release) have brought IFRSs closer to the forefront than ever before:

In the United States, the “acceptance” of IFRSs has almost always been debated in the context of cross-border offerings and listings involving “foreign private issuers.”

- **SEC Proposing Release on Elimination of the U.S. GAAP Reconciliation** — On July 2, 2007, the SEC issued a proposing release² that would eliminate the requirement for foreign private issuers to reconcile their financial statements with U.S. GAAP if the financial statements are prepared using IFRSs as published by the IASB. This proposed approach would give foreign private issuers a choice of using U.S. GAAP, local GAAP reconciled to U.S. GAAP, or IFRSs in preparing financial statements that are filed with the SEC. The change, which awaits formal adoption after a 75-day public comment period, would apply to 2008 annual reports, which are filed in 2009. For more information about this proposing release, refer to Deloitte & Touche LLP's *July 9, 2007, Heads Up*.
- **The SEC's Partnering With European Regulators** — Recently, the SEC and its European counterparts have been discussing the mutual recognition of financial reporting frameworks. This would result in the “acceptance” of IFRSs and U.S. GAAP in both U.S. and EU markets. To accomplish this, the EU has embarked on an initiative involving “equivalence” of standards, while the SEC has developed its “IFRS Roadmap.” Ultimately, these efforts will allow U.S. companies to continue to use U.S. GAAP in Europe and EU companies to use IFRSs in the United States (without reconciliation to U.S. GAAP).
- **Standard Setters' Ongoing Convergence Efforts** — In the past, differing views concerning the role of financial reporting made it difficult to achieve convergence of accounting standards. Now, with the growing international consensus that financial reporting should provide investors with high-quality financial information, the IASB and FASB have coordinated their agendas and have amended, or have taken steps to amend, several current standards.

² SEC Proposed Rule No. 33-8818, *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP*.

Are IFRSs Right For Your Company?

Since U.S. companies may in the future be able to use IFRSs for public reporting purposes, they should be thinking about whether IFRSs are right for them. The following are a few items for these companies to consider:

- **Impact of IFRSs on Statutory Reporting Requirements** — Many U.S. companies may have non-U.S. subsidiaries that are, or will be, obligated to use IFRSs for local or statutory reporting purposes. Ultimately, a company should identify countries that may now have a local IFRS reporting requirement and consider where it has securities listed internationally (equity investees and joint ventures should be included in this analysis). A company also should consider where it may have complex cross-border structures and whether there is an IFRS requirement. Below are just some of the possible scenarios in which IFRSs would be required:
 - o U.S. subsidiaries with parents that have IFRS reporting requirements.
 - o U.S. joint ventures with a venture partner that operates in countries requiring IFRSs.
 - o U.S. multinationals seeking to enter new markets and expand operations to a foreign country may need to report using IFRSs to obtain an operating license or to raise capital.
- **What the Competition Is Doing** — Companies may want to consider adopting IFRSs for accounting and financial reporting if their significant competitors report financial information that is based on IFRSs. This may be particularly true for companies in specific industries — such as the banking, insurance, motor vehicle manufacturing, pharmaceutical, and telecommunications industries. Comparable financial reporting evens the playing field, allowing investors to have an “apples-to-apples” perspective when comparing results. At the very least, these companies will need to develop a greater knowledge of IFRSs.
- **Application Issues** — While convergence efforts between IFRSs and U.S. GAAP continue, major differences still exist. A company should evaluate the impact of those differences in determining the effort it would make to adopt IFRSs. Generally, a company should assess its current accounting policies and understand any changes it would need to implement in making the transition to IFRSs. During this assessment, management should consider (1) application issues it may encounter, (2) which standards will be most challenging to adopt, and (3) whether the IASB and FASB are planning convergence projects that would further ease the transition from U.S. GAAP to IFRSs. A company may conclude from the assessment that the costs of adoption do not outweigh the benefits.

The movement toward IFRSs offers U.S. companies, particularly those that operate globally, several potential opportunities, including the following:

- **Standardization of Accounting and Financial Reporting Policies** — A consistent set of accounting policies and financial statements in each country where local reporting is required improves the comparability of financial information and tax planning.
- **Centralization of Processes** — By moving toward company-wide IFRS use, a company could reduce reliance on local accounting resources for statutory reporting purposes, develop standardized training programs, and eliminate divergent accounting systems.
- **Improved Controls** — Standardization of the reporting would allow companies to assign one worldwide owner for statutory reporting, giving them better control over the quality and issuance of financial statements in other locations.
- **Better Cash Management** — Dividends that can be paid from subsidiaries may be based on local financial statements. Allowing use of a consistent standard across countries can help improve cash flow planning.

The movement toward IFRSs offers U.S. companies, particularly those that operate globally, several potential opportunities.

Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by the Accounting Standards and Communications Group of Deloitte & Touche, please [register](http://www.deloitte.com/us/subscriptions) at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte & Touche's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts presented each month on:

- Sarbanes-Oxley.
- Corporate governance.
- Private companies.
- Financial reporting.
- Driving enterprise value.
- Transactions and business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join *Dbriefs*](#) to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

On August 27 at 2:00 PM EDT, we will host a 60-minute webcast, "International Financial Reporting Standards: Evaluating the Implications of Recent SEC Activity." [Register](#) for this webcast today.

Technical Library: The Deloitte Accounting Research Tool Available

Deloitte & Touche makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting manuals and other interpretive accounting guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. In addition, Technical Library subscribers receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

Heads Up is prepared by the National Office Accounting Standards and Communications Group of Deloitte & Touche LLP ("Deloitte & Touche") as developments warrant. This publication contains general information only and Deloitte & Touche is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte & Touche, its affiliates and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 140 countries.

With access to the deep intellectual capital of approximately 150,000 people worldwide, Deloitte delivers services in four professional areas—audit, tax, consulting, and financial advisory services—and serves more than 80 percent of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

In the United States, Deloitte & Touche USA LLP is the U.S. member firm of Deloitte Touche Tohmatsu and services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Financial Advisory Services LLP, Deloitte Tax LLP, and their subsidiaries), and not by Deloitte & Touche USA LLP. The subsidiaries of the U.S. member firm are among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services through nearly 40,000 people in more than 90 cities. Known as employers of choice for innovative human resources programs, they are dedicated to helping their clients and their people excel. For more information, please visit the U.S. member firm's Web site at www.deloitte.com/us.