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In This Issue:

- One Set of High-Quality Standards
- Optional Versus Mandatory Transition Approach
- Next Steps

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SEC Holds Fourth Roundtable on IFRSs

by Randall Sogoloff and Stephanie Wolfe, Deloitte & Touche LLP

A key message of panelists at the August 4, 2008, SEC roundtable was that IFRSs have held up quite well in the face of recent market turmoil. Some panelists believed that IFRSs have even outperformed U.S. GAAP in many areas, such as off-balance-sheet transactions involving special-purpose entities, and have resulted in more robust, transparent disclosures. The following are other important messages from the roundtable:

- Improvement is needed to the fair value reporting requirements under both IFRSs and U.S. GAAP. Some panelists specifically pointed to the requirement under FASB Statement No. 157, *Fair Value Measurements*, for an entity to consider its own credit standing when determining the fair value of its liabilities, and the resulting effect on the income statement.
- Improving revenue recognition guidance under IFRSs should be a priority for standard setters.
- Consistent application of accounting standards and financial statement presentation are important to investors.
- The transition to IFRSs gives companies the opportunity to reassess their accounting policies and disclosures to ensure that their accounting reflects the true economics of the transactions and that their financial statements are sufficiently transparent.

The SEC roundtable served in part as an educational session for the three recently sworn-in SEC commissioners, as well as an important next step toward issuing an updated roadmap on the use of IFRSs in the United States. Roundtable panelists included investors, issuers, auditors, and others with experience in preparing or evaluating financial statements under IFRSs or U.S. GAAP; observers from the FASB and IASB were also present. The roundtable consisted of two sessions: the first focused on perspectives from the financial services industry; the second focused on experiences in other industries. Topics discussed included panelists' experience with using IFRSs and U.S. GAAP during the current financial crisis, the best way to develop stronger standards, and the direction of convergence efforts between the two sets of standards.

One Set of High-Quality Standards

As at previous SEC roundtables, panelists stressed the need to have a single set of high-quality financial reporting standards for global use. With over 100 countries currently requiring or permitting the use of IFRSs and several more slated to adopt IFRSs by 2011, IFRSs have the momentum to be that set of standards. Nonetheless, many panelists acknowledged that IFRSs are not a mature set of standards and therefore could lead to greater inconsistency in application in the short term. Roger Harrington, vice president of group accounts at BP plc, stated that "it takes time to settle and it takes time to find the answers"; however, other conversions, such as those in the European Union, have helped bring issues to light.

Charlotte Jones, global head of the Accounting Policy Group at Deutsche Bank, noted that the conversion from U.S. GAAP to IFRSs has resulted in more work for employees at her company because under IFRSs, they have had to fully understand the economic substance of each transaction rather than use the U.S.-GAAP-based consolidation rules to determine a consolidation result. Despite the increased effort, however, Ms. Jones believed that her company has obtained a more realistic accounting result under IFRSs. Trevor Harris, managing director and vice chairman of client services at Morgan Stanley, stated that investors are looking for accounting that is more closely aligned with the economic substance of a transaction.

Panelists also discussed the role of convergence, acknowledging that much work remains to be done in this area. Continued convergence efforts between the IASB and the FASB will help ensure that IFRSs remain the global standards of choice. John Smith, an IASB board member, noted that the IASB has established a 2011 timeline for completion of major convergence projects. This timeline will coincide with the IFRS adoption date of several major countries.

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Optional Versus Mandatory Transition Approach

SEC Commissioner Luis Aguilar asked Paul Boyle, chief executive of the UK Financial Reporting Council, what he might suggest doing differently regarding a transition to IFRSs. Mr. Boyle noted that whether to use a “Big Bang” or phased-in approach depends on several factors. He pointed out that for the European Union, the Big Bang approach made sense given the significant number of accounting jurisdictions involved. However, for the United States, which is only facing the possibility of the use of these two high-quality sets of standards during an optional period, a phased-in approach may be the better alternative. A phased-in approach may also be preferable for U.S. issuers because it will give them more time to sort out the consistency of application that would accompany a more principles-based system.

Next Steps

The SEC did not give many details about the updated IFRS roadmap that it is expecting to issue by the end of September. Some panelists urged the SEC to set a specific transition date to provide constituents with the necessary momentum to begin preparing for the transition to IFRSs.

So the question we are now asking ourselves is, how does this fit in over the longer term, and will U.S. companies ultimately be using IFRS instead of U.S. GAAP? That's the big picture that we're all focused on in the weeks and months ahead.

— SEC Chairman Christopher Cox

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