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SEC Holds Roundtables on IFRSs

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> For several years, U.S. investors have witnessed the growing use of IFRS in U.S. markets by overseas companies with U.S. listings. In effect, for the last few years U.S. investors have been dealing with two competing accounting systems — IFRS for many U.S. listed companies from overseas, and U.S. GAAP for domestic issuers. The mandatory use of IFRS throughout Europe and increasingly throughout the world requires us to consider the impacts on our domestic markets.
>
> — SEC Chairman Christopher Cox, discussing the roundtables

Introduction

On December 13 and 17, 2007, the SEC hosted two roundtable discussions on the potential use of International Financial Reporting Standards (IFRSs) in the United States. These roundtables are in response to (1) the SEC's recent issuance of a concept release soliciting input on whether U.S. issuers should be permitted to use IFRSs in preparing their financial statements and (2) the SEC's recent decision to eliminate the U.S. GAAP reconciliation requirement for foreign private issuers using IFRSs. The roundtable participants comprised various constituents, including financial intermediaries, investors, and issuers.

The roundtables addressed the effect of giving U.S. issuers the choice of using IFRSs or U.S. GAAP on the capital markets and on competition. Practical issues concerning the possible use of IFRSs by U.S. issuers and the impact on investor protection also were addressed. Issues were addressed from both the U.S. market's perspective and the global perspective.

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Optional or Mandatory?

While all participants agreed that movement toward a single set of high-quality global accounting and financial reporting standards would be desirable, there were differing views on how the SEC should approach transitioning U.S. issuers to a single global standard — IFRSs. The discussion focused on whether the SEC should give U.S. issuers the same option that foreign issuers now have to use IFRSs instead of U.S. GAAP. Some believe that in the short term, the SEC should give U.S. issuers the option to use IFRSs or U.S. GAAP in preparing their financial statements, with a longer-term goal of requiring all U.S. issuers to transition to IFRSs. Others believe that an option should not be given in the interim and that the SEC should set a mandatory date for all U.S. issuers to transition to IFRSs. Participants also discussed how to transition all U.S. issuers to IFRSs. Some suggested a phased-in approach in which larger issuers would be required to adopt first, followed by smaller issuers.

Impact on the Capital Markets and Competition

Participants generally agreed that using a single global standard would make the capital markets more efficient by reducing compliance costs and providing more comparable financial information to investors. There were differing views on the impact of giving U.S. issuers the option to use IFRSs. Some expressed concern that if they are not able to use IFRSs, they could be at a competitive disadvantage because most countries already have transitioned, or are transitioning, to IFRSs. Others noted that such an option could introduce greater complexity into the market.

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Practical Issues With the Adoption of IFRSs

Participants discussed their recent experiences with the adoption of IFRSs. Issuers noted the importance of taking a holistic approach to IFRSs and having a communications strategy not only with investors but also internally. Broader issues participants noted included the need to address the impact on taxes (in particular, LIFO conformity), legal matters such as contracts and debt covenants, and the interaction with XBRL.

In general, participants noted that it would be necessary to make changes in the U.S. legal and regulatory environment to accommodate a transition to IFRSs.

Investor Protection Issues

Some participants expressed concern about companies choosing the option that is best for them as opposed to what is best for the investor. Others noted that IFRSs may provide more transparent information. Many stressed the importance of clear and transparent disclosure about the nature and significance of the transition to IFRSs. In addition, some suggested having guidance similar to that of European regulators (e.g., guidance of the Committee of European Securities Regulators).

Timing and Next Steps

While most participants did not give a specific time frame for when the SEC should allow or require the use of IFRSs by U.S. issuers, most did provide insight into the conditions necessary before such use. For example, some expressed the need for a stronger global infrastructure as well as a stable source of funding, stronger independence, and greater technical expertise at the IASB. Others noted that certain existing IFRSs need improvement. Still others stressed that a regulatory infrastructure must exist to facilitate faithful and consistent application of IFRSs around the world. Finally, some noted that academic curricula and training on IFRSs should be developed before the SEC mandates the use of IFRSs.

Many participants stressed the importance of a realistic and clear deadline that would give companies, accountants, educators, and regulators enough time to make the transition. Some suggested that a two- to three-year time frame is necessary before IFRSs are introduced in the United States. This is consistent with the transition period in Europe.

After reviewing all the comments, the SEC will consider whether to issue a formal proposal to change the requirements for U.S. issuers. That could come as soon as early 2008. It is expected that U.S. companies could have the option of using IFRSs by 2010 or 2011.

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