

# Technical Line

Technical guidance on standards  
and practice issues

## The road to IFRS in the US

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### Overview

On 14 November 2008, the US Securities and Exchange Commission (SEC) issued a proposed "Roadmap" on the potential use of International Financial Reporting Standards (IFRS)<sup>1</sup> as issued by the International Accounting Standards Board (IASB) in financial statements prepared by US issuers.<sup>2</sup> The proposed Roadmap sets forth several milestones that, if achieved, could result in the mandatory use of IFRS by US issuers in financial statements filed with the SEC for fiscal years ending in 2014, 2015 or 2016, depending on the size of the issuer. As part of the Roadmap, the SEC is proposing amendments to various regulations, rules and forms that would permit the early adoption of IFRS in years ending after 15 December 2009 by a limited number of large US issuers that participate in an industry in which the use of IFRS is more prevalent than any other basis of accounting. The SEC will consider the progress made towards achieving the milestones and will evaluate the comments received in response to its proposed Roadmap before reaching a final decision in 2011 about whether to proceed with the mandatory adoption of IFRS by US issuers.

Previously, we issued a Hot Topic, *SEC proposed rule: Roadmap for the potential use of IFRS by US issuers* (SCORE No. BB1630), which provided a summary of the more significant aspects of the proposed Roadmap. The following builds upon the discussion in our Hot Topic and provides a more expansive discussion of the proposed Roadmap and related proposed rule amendments. The conversion to IFRS would be a monumental undertaking for US issuers and would have pervasive effects on the US capital markets, requiring changes in the ways financial information is both prepared and used. We strongly encourage all constituents to give careful consideration to each aspect of the proposed Roadmap and to provide feedback to the SEC on when and if these proposed changes should take place. Comments must be submitted to the SEC by 19 February 2009.

<sup>1</sup> The term "IFRS" in this publication refers to IFRS as issued by the IASB.

<sup>2</sup> Release No. 33-8982 (14 November 2008).

## The Roadmap

The proposed Roadmap focuses on the ultimate mandatory, rather than elective, use of IFRS by US issuers. The Roadmap outlines the milestones and conditions that, if met, could lead to the use of IFRS by public companies in the US.

The Roadmap recommends a phased approach to IFRS reporting. While any actual phase-in would be subject to a separate rule-making process, the proposed Roadmap recommends that IFRS reporting be phased in as follows:

- ▶ Large accelerated filers: years ending on or after 15 December 2014
- ▶ Accelerated filers: years ending on or after 15 December 2015
- ▶ Non-accelerated filers: years ending on or after 15 December 2016

### Illustrative example

A calendar year-end US issuer that qualifies as a large-accelerated filer might be required to begin filing IFRS financial statements in its Form 10-K for the year ended 31 December 2014.

### Financial statement requirements

As proposed, an eligible issuer could not file IFRS financial statements for the first time in a quarterly report, registration statement or proxy statement. Instead, the SEC would require an issuer to file its first IFRS financial statements in an annual report containing three years of audited IFRS financial statements. Conversely, the SEC has provided indefinite relief for financial reporting by first-time adopters of IFRS that are Foreign Private Issuers filing Form 20-F. The SEC requires such first-time adopters to provide only two years of audited financial information in their first Form 20-F filed with the SEC that includes IFRS financial statements. The SEC has stated that, because the proposed Roadmap relates to the set of accounting principles to be used for preparing financial statements and not to the periods for which financial statements are required, it is not inclined to allow US issuers to present only two years of IFRS financial statements.

### Illustrative example

A calendar year-end US issuer that qualifies as a large-accelerated filer would be required to file financial statements in accordance with IFRS for 2012, 2013 and 2014 in its 31 December 2014 Form 10-K. During 2012, 2013 and the first three quarters of 2014, the company would continue to publicly report under US GAAP.

## Future rulemaking and implementation

The proposed Roadmap calls for the SEC to make a final decision in 2011 on whether it would formally propose a rule that would require reporting in accordance with IFRS. In making this determination, the proposed Roadmap indicates the SEC will consider the progress made towards the milestones (discussed below) as well as the results of an internal study. Without providing many details, the proposed Roadmap indicates that the SEC has directed the Office of the Chief Accountant, with the assistance as needed of other SEC Divisions, to undertake a study and report to the Commission on the "implications for investors and other market participants of the implementation of IFRS for US issuers." After reviewing the status of the milestones and the study discussed above, the SEC's ultimate decision whether to proceed with rulemaking that would require US issuers to file IFRS financial statements will be based on whether such rules would be in the public interest and would promote investor protection.

Further, the proposed Roadmap indicates that as the SEC evaluates progress towards the milestones, it also might consider adopting transition rules that would expand the eligibility criteria to early adopt IFRS, such that additional US issuers might be able to use IFRS in their SEC filings prior to a mandatory transition date.

The proposed Roadmap describes the SEC's potential implementation of mandatory IFRS reporting by US issuers, including the phased approach based on the size of the company discussed above.

### Milestones

The proposed Roadmap sets forth the following milestones and conditions:

**Improvements in accounting standards:** The proposed Roadmap indicates the SEC will consider the extent of progress made by the FASB and the IASB in their convergence efforts when deciding in 2011 whether or not to mandate the use of IFRS by US issuers. The SEC will assess whether the accounting standards developed not only are of high quality, are sufficiently comprehensive, and are consistently applied, but also whether the standards have been established under a robust, independent process that includes careful consideration of possible alternative approaches. Further, the SEC will assess whether the new accounting standards produced are capable of improving the quality, accuracy and effectiveness of financial reporting compared to the existing accounting standards.

The FASB and IASB have been working toward convergence since 2002, when the Boards issued a Memorandum of Understanding, called the Norwalk Agreement.<sup>3</sup> In that agreement, the Boards pledged to use their best efforts to make their existing financial reporting standards fully compatible as soon as is practicable and to coordinate their future work programs so that, once achieved, compatibility between IFRS and US GAAP standards would be maintained. In a 2006 Memorandum of Understanding, the FASB and the IASB set out a work plan covering several projects and coordinated agendas so that major projects that one board undertakes also could be taken up by the other board. That plan covered specific long- and short-term projects for work into 2008. Recently, the FASB and the IASB updated the timetable for their joint work under the 2006 Memorandum of Understanding,<sup>4</sup> extending the next phase of the joint work plan through 2011.

**Accountability and funding of the IASC Foundation:** The International Accounting Standards Committee (IASC) Foundation historically has financed IASB operations largely through voluntary contributions from accounting firms, companies, international organizations, central banks and governments. Going forward, the IASC Foundation has established goals for a future funding approach that are broad-based, unconditional, country-specific and enforceable<sup>5</sup> and it continues to make progress in obtaining such funding. For example, the IASC Foundation has established a levy system through regulatory bodies and accounting firms in several European countries. The SEC will consider the degree to which the IASC Foundation has a secure, stable funding mechanism that permits it to function independently and that enhances the IASB's standard setting process.

In addition to pursuing a more stable funding mechanism, the IASC Foundation recently proposed the establishment of a Monitoring Group to improve its accountability (similar to the current SEC oversight of the Financial Accounting Foundation). The Monitoring Group would be comprised of securities authorities (including the SEC) charged with the adoption or recognition of accounting standards used in their respective jurisdictions. The Monitoring Group would participate in the nomination and approval of the IASC Foundation Trustees, review the funding arrangements of the IASC Foundation for adequacy and appropriateness and address matters for which the IASC Foundation Trustees are responsible, such as oversight of the IASB and potential areas for consideration by the IASB in its ongoing work.<sup>6</sup> The SEC will evaluate the effectiveness of

the oversight mechanism in making the determination whether mandating IFRS is in the public interest for the protection of investors and our markets.

**Improvement in the use of interactive data for IFRS reporting:** On 17 December 2008, the SEC voted to adopt a final rule that requires the use of eXtensible Business Reporting Language (XBRL) for SEC financial reporting in order to improve its usefulness and comparability. Under the XBRL phase-in schedule adopted by the SEC, foreign private issuers using IFRS will be required to comply for fiscal periods ending on or after 15 June 2011.

However, the SEC would expect US issuers to be capable of providing IFRS financial statements to the SEC in an interactive data format at a greater level of detail than is currently available. To date, the IASC Foundation has published a complete list of tags and has published annual updates to reflect new pronouncements, changes in XBRL technical standards and other improvements. The IASC Foundation published the most recent update in July 2008. The SEC is actively involved in the improvement and monitoring of the IFRS list of tags for interactive data reporting through its participation in the IASC Foundation's XBRL Advisory Council. The proposed Roadmap indicates that the SEC will consider the development and quality of the IFRS taxonomies prior to mandating IFRS for all US issuers.

**Education and training:** The SEC recognizes that reporting in accordance with IFRS by US issuers would require effective training and education about IFRS for investors, accountants, auditors, regulators and others involved in the preparation and use of financial statements. Accordingly, the proposed Roadmap indicates that the SEC will consider the state of preparedness of these groups, including the extent and availability of IFRS education and training. The SEC has commented that it is aware of the progress by public accounting firms and academia in this regard. For example, through the efforts of organizations such as the Ernst & Young Academic Resource Center,<sup>7</sup> IFRS content has become increasingly more common in the curricula of US universities.

### **Proposal for the limited early use of IFRS**

The Roadmap contains a proposed rule amendment that would permit certain US companies that meet specified criteria to file IFRS financial statements with the SEC for years ending on or after 15 December 2009. The SEC anticipates that permitting some US issuers to report using IFRS could assist a transition to mandatory IFRS financial reporting. The SEC could learn from investors, preparers and other US public capital market participants about their consideration of IFRS financial information by eligible domestic issuers. The details of this proposed rule amendment are discussed further below.

<sup>3</sup> See <http://www.fasb.org/news/memorandum.pdf>.

<sup>4</sup> The FASB and the IASB previously agreed to a "best efforts" convergence approach to make their standards fully compatible as soon as practicable. This agreement was recently updated. See [http://www.fasb.org/intl/MOU\\_09-11-08.pdf](http://www.fasb.org/intl/MOU_09-11-08.pdf)

<sup>5</sup> Further description of these elements can be found on the IASB's web site at <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>.

<sup>6</sup> The proposed responsibilities of the Monitoring Group do not extend to the standard setting process.

<sup>7</sup> See [http://www.ey.com/global/Content.nsf/US/Media\\_-\\_Release\\_-\\_05-15-08DC](http://www.ey.com/global/Content.nsf/US/Media_-_Release_-_05-15-08DC).

## Eligibility requirements

The rule proposal includes two criteria, both of which must be met, in order for a US issuer to be eligible to report under IFRS in advance of a mandatory conversion requirement, as follows:

- ▶ Be one of the 20 largest listed companies in its industry based on global market capitalization
- ▶ Participate in an industry in which the use of IFRS is more prevalent than any other basis of accounting among those 20 largest listed companies

When assessing whether or not it meets these criteria, an issuer should perform the following:

- (1) Determine its industry group. The proposing release provides a number of acceptable alternatives for making this determination. However, a company must use a single published and widely accepted industry source. Allowable methods for determining the industry group are:
  - a. The North American Industry Classification System (NAICS)<sup>8</sup> code at the three-digit level,
  - b. The Standard Industrial Classification (SIC)<sup>9</sup> codes at the two-digit level,
  - c. The International Standard Industrial Classification (ISIC)<sup>10</sup> codes at the "Division" level
  - d. A privately provided, published, and widely accepted industry classification scheme at a similar level of detail, such as (1) the Industry Classification Benchmark (ICB)<sup>11</sup> at the "Sector" level or (2) the Global Industry Classification Standard (GICS)<sup>12</sup> at the "Industry" level.
- (2) The issuer would then determine whether IFRS is used as the basis of financial reporting more than any other basis of financial reporting by the 20 largest listed companies worldwide within its industry. This would be done by:
  - a. First, identifying the 20 largest listed companies globally in its industry by market capitalization.<sup>13</sup> Note that the issuer would have to be one of these 20 largest companies. For the purpose of this calculation, market capitalization should be determined as of the same day for each of the listed companies within 180 days of the date on which the SEC

staff receives the issuer's request for a letter of no objection (as described below). Market capitalization would need to be determined from a widely accepted source.

- b. Next, determining which accounting standards each of these 20 companies uses to report its financial results to the public capital markets. Companies are considered to report under a specified set of accounting standards if they have published audited annual financial statements under those accounting standards.<sup>14</sup>

## Illustrative examples

If among the top 20 listed companies in a specific industry group, there were 8 companies using IFRS, 7 using US GAAP and 5 using other bases of financial reporting, the industry would be viewed as an "IFRS industry" and any of the 7 companies reporting under US GAAP, if domestic SEC registrants, would be eligible to early adopt IFRS, subject to the SEC staff's no objection process.

As another example, if among the top 20 listed companies in a specific industry group, there were 6 companies using IFRS, 4 using US GAAP and 10 using other bases of financial reporting (but none of which is used by more than 6 of those companies), the industry also would be viewed as an "IFRS industry."

Based on a preliminary assessment, using just one of the allowable methods to determine industry groups, the SEC staff identified approximately 110 US companies across 34 industries that might qualify to early adopt IFRS.

## Staff no objection letter

As proposed, to be able to elect to early adopt IFRS in SEC filings, a US issuer would need to obtain a letter of no objection from the SEC staff.

To obtain a no objection letter, an issuer's submission to the staff of the Division of Corporation Finance's Office of the Chief Accountant must describe its analysis for determining its eligibility to early adopt IFRS. If the SEC staff has no objections to the issuer's conclusions that it is eligible to early adopt IFRS, the SEC staff would issue a no objection letter. Thereafter, the issuer could adopt IFRS at any time during the subsequent three-year period without updating the eligibility analysis with more current data.

Obtaining an SEC staff no-objection letter would not commit the issuer to early adopt IFRS. However, once issued, the no-objection letter would be publicly available on the SEC's website. The SEC is

<sup>8</sup> See <http://www.census.gov/epcd/www/naics.html>.

<sup>9</sup> See <http://www.census.gov/epcd/www/sic.html>.

<sup>10</sup> See <http://unstats.un.org/unsd/class/family/family2.asp?CI=27>.

<sup>11</sup> See <http://www.icbenchmark.com/>.

<sup>12</sup> See <http://www.msibarra.com/products/gics/>.

<sup>13</sup> For these purposes, market capitalization refers to the worldwide market value of a company's outstanding voting and non-voting common equity securities.

<sup>14</sup> For purposes of the determination, companies reporting under more than one set of standards can be counted as using any one of these standards.

proposing such publication in order to provide information to investors and others about the possibility of the issuer filing reports using IFRS in the future.

### Transition

The SEC would require an eligible issuer that elects to file IFRS financial statements to do so first in an annual report containing three years of audited IFRS financial statements. As proposed, an eligible issuer could not file IFRS financial statements for the first time in a quarterly report, registration statement or proxy statement. An eligible issuer would be permitted to file IFRS financial statements in filings for fiscal years ending on or after 15 December 2009. IFRS financial information for comparative periods contained in the filing also would be required.

### Illustrative example

Under the rule proposal, an eligible calendar year-end issuer would be permitted to file financial statements using IFRS as early as for the year ended 31 December 2009. In that case, the issuer's Form 10-K for the year ended 31 December 2009 would be required to present IFRS financial statements for the years ended 31 December 2007, 2008 and 2009.

### Alternative proposals

The SEC is seeking feedback on two alternatives with respect to the disclosure of US GAAP information by US issuers that elect to early adopt in their SEC filings.

#### Proposal A

Under the first alternative, Proposal A, a US issuer that elects to file IFRS financial statements would provide, in a footnote to its audited financial statements, the reconciling information from US GAAP to IFRS called for under IFRS 1, *First-time Adoption of International Financial Reporting Standards*. This reconciliation would be required only in the first annual report that includes IFRS financial statements, and there would be no on-going US GAAP reconciliation requirements in subsequent years.

Under proposal A, an eligible issuer would be required to include the reconciliations described in paragraph 24 of IFRS 1 (reported equity and comprehensive income) in the year of adoption. In subsequent annual reports, the issuer would not be required to provide any additional reconciliations.

#### Proposal B

Under the second alternative, Proposal B, in addition to providing the reconciling information required under IFRS 1 (as described in Proposal A), the issuer also would reconcile its IFRS financial statements to US GAAP for each of the three years covered by the financial statements. The proposing release does not specify the form

of this additional reconciling information. However, the proposal indicates that the reconciling information would be required to be "in a form and level of information in sufficient detail to explain all material adjustments to the relevant financial statements." The proposing release indicates that some companies might find it easier to continue to also prepare and provide financial statements under US GAAP (rather than provide reconciliations). In any case, this additional information would be considered supplemental financial information and would not be subject to either management's or the auditor's assessment of internal control over financial reporting, nor would it be required to be audited or reviewed by the auditor. However, the proposing release notes that, if adopted, the requirement to continue to provide this supplemental information would continue until the SEC indicates otherwise, likely in connection with the SEC making a final decision on the future use of IFRS by US issuers.

The rule proposal indicates that one of the reasons for potentially requiring companies that elect to early adopt IFRS to perform this potentially onerous reconciliation to US GAAP on an annual basis is because the SEC has yet to make a final determination on the future use of IFRS by US issuers. As a result, the proposing release indicates that "were the Commission to determine to not continue to permit or require US issuers to use IFRS, those issuers that had elected to report under IFRS could more easily return to reporting in accordance with US GAAP" as a result of this on-going reconciliation requirement. However, we are concerned that, if adopted, the ongoing reconciliation requirements of Proposal B will deter companies from early adoption, thereby limiting the benefits to and opportunities for the Commission, investors, preparers and other capital market participants to learn from the experiences of early adopters.

### Illustrative example

Under Proposal B, an eligible issuer that files an annual report for the year ending 31 December 2009 using IFRS for the first time would include, in addition to the reconciliations required under IFRS 1 (as described under Proposal A), reconciliations from IFRS To US GAAP covering the three most recently completed fiscal years.<sup>15</sup> The reconciliations would cover all of the financial statements required to be presented under IFRS: the balance sheets, statements of income (loss), statements of cash flow, statements of changes in stockholder's equity, and statements of comprehensive income.

<sup>15</sup> The language used in the proposed Roadmap to describe the reconciliation requirement could be interpreted to require three years of reconciliations for all financial statements required to be presented under IFRS, including the balance sheet. This is contrary to the fact that only two years of IFRS balance sheet information is required to be presented in IFRS financial statements. The SEC likely would clarify this requirement if it adopts a final rule that incorporates Proposal B.

Thereafter, in each annual report on Form 10-K, the issuer would provide the IFRS to US GAAP reconciliation covering the same three-year period as the audited financial statements included in the Form 10-K.

### Proposed amendments

The following discussion provides an overview of some of the more significant proposed amendments to existing SEC rules, regulations and forms. The proposed amendments are designed to permit the limited early use of IFRS as described above and also apply to any issuer that prepares its financial statements in accordance with IFRS in filings with the SEC, whether a domestic or a foreign private issuer.

#### Amendments to Regulation S-X

The SEC's Regulation S-X contains many requirements relating to the form and content of financial statements for SEC issuers. The SEC is proposing a number of amendments to Regulation S-X. Generally, an eligible IFRS issuer that chooses to adopt IFRS as issued by the IASB for its financial reporting would not be required to comply with the provisions of Regulation S-X that specify financial presentation, disclosure content, or recognition and measurement of amounts within the issuer's financial statements, especially where those items already are addressed by the IFRS standards themselves. For example, the individual rules within Article 5 of Regulation S-X that specify the line items to be included in the balance sheet, income statement and the statement of changes in other stockholders' equity need not be applied by an entity that has adopted IFRS because IFRS as issued by the IASB provides presentation requirements for those financial statements. Similarly, Article 10 of Regulation S-X on interim financial statements generally would not apply because interim reporting is addressed in IAS 34 *Interim Financial Reporting*.

However, provisions within Regulation S-X that address the age, dates and periods to be covered by financial statements under various circumstances, the qualifications of auditors and the content of audit reports would still apply. For example, the requirements of Article 10 that pertain to the requirement to provide interim financial statements and to have those interim financial statements reviewed by an independent auditor would still apply to IFRS issuers.

Finally, the SEC is proposing to amend Regulation S-X to include a new Article, Article 13, to address in one place the requirements for all IFRS issuers, including both US companies and foreign private issuers. This new article would bring together three basic requirements for IFRS financial statements, as follows:

- (1) IFRS financial statements must contain a footnote in which the issuer unreservedly and explicitly states compliance with IFRS as issued by the IASB

- (2) The auditor's report must include an opinion on whether the financial statements comply with IFRS as issued by the IASB
- (3) Financial statements that are not prepared in accordance with IFRS as issued by the IASB will be presumed to be misleading or inaccurate, unless the SEC has specifically provided otherwise

The purpose of these three requirements is to make clear that only IFRS as issued by the IASB is acceptable in filings with the SEC, and that jurisdictional versions of IFRS will not be considered acceptable.

#### Selected financial data

Item 301 (a) of Regulation S-K requires that issuers provide five years of selected financial data. As proposed, Item 301 would be amended to clarify that an IFRS issuer must present selected financial data on the basis of IFRS. Recognizing that an issuer adopting IFRS for the first time will not have available five years of financial data based on IFRS, Item 301 also would be amended to permit an IFRS issuer that prepares its financial statements in accordance with IFRS for the first time to present selected historical financial data for only the three most recent fiscal years. In each of the two subsequent fiscal years an IFRS issuer would provide an additional year of selected financial data based on IFRS, building up to five years.

#### Market-risk and safe harbor provisions

Item 305 of Regulation S-K requires an issuer to provide quantitative and qualitative disclosure about market risk related to certain financial instruments. Currently, this information is not included in the financial statements and is subject to certain of the SEC's safe harbor provisions. However, IFRS 7 *Financial Instruments: Disclosures* requires that market risk disclosures similar to those required by Item 305 be provided within the notes to the financial statements. The SEC is not proposing any changes in this area, and will require full compliance with IFRS 7 for US issuers that elect to use IFRS. However, the SEC acknowledges that the loss of safe harbor protection might require further consideration and is requesting feedback from commenters.

#### Significance testing

Rules 3-05, 3-09 and 3-14 of Regulation S-X require an issuer to include the financial statements of businesses acquired or to be acquired, unconsolidated subsidiaries and 50% or less owned persons, and real estate operations to be acquired, respectively, if the entity meets certain significance tests.<sup>16</sup> Measurements for

<sup>16</sup> An entity is significant to the issuer under Rules 3-05 and 3-09 if the issuer's investment in the entity exceeds 20% of the issuer's total assets, the entity's income (as defined) exceeds 20% of the issuer's corresponding income, or (for Rule 3-05 only) the entity's total assets exceed 20% of the issuer's total assets. Rule 3-14 significance is based on the 10% level in Rule 1-02 (w).

significance testing are based on the financial statements of the issuer. Accordingly, if an issuer prepares its own financial statements in accordance with IFRS, that issuer would perform the significance tests under Rules 3-05, 3-09 and 3-14 using IFRS, regardless of the basis of financial reporting used by the other entity. The SEC has proposed to amend Rule 1-02 (w) of Regulation S-X to clarify that an issuer that prepares its financial statements in accordance with IFRS should perform significance testing using amounts determined under IFRS.

### Illustrative example

A domestic registrant that reports using IFRS that purchases a domestic registrant that reports under US GAAP would be required to perform its significance tests to determine the financial statement requirements under Rule 3-05 using amounts determined under IFRS for both the acquirer and the acquired entity.

### Financial statements of other entities

Generally, the historical financial statement requirements for an acquired business or investee under Rule 3-05, 3-09 or 3-14 of Regulation S-X are governed by the status of that entity (that is, whether or not the entity is a foreign private issuer). Currently, differences exist in the financial statement requirements for domestic and foreign private issuers. A foreign private issuer that is acquired and uses a basis of accounting other than IFRS or US GAAP must reconcile the financial statements required under Rule 3-05, 3-09 or 3-14 to US GAAP. Under the proposed rule, an entity that submits IFRS financial statements, regardless of whether or not the entity is a foreign private issuer, that is required to file financial statements under Rule 3-05, 3-09 or 3-14 would be permitted to submit for any entity, whether domestic or foreign, audited financial statements prepared in accordance with IFRS without that particular entity having to meet the definition of an IFRS issuer. The SEC has proposed to amend Rule 4-01 (a) of Regulation S-X to clarify that such an option is available.

### Illustrative example

A foreign private issuer that reports using local GAAP that is neither US GAAP nor IFRS completes a significant acquisition and is required to file financial statements of the acquired entity under Rule 3-05. Under the proposed rule change, the foreign private issuer would be permitted to submit financial statements for the acquired entity prepared using IFRS, without a reconciliation requirement. Under current rules, the issuer would be required to submit financial statements prepared using the acquired entity's local GAAP with a reconciliation to US GAAP.

### Pro forma financial statements

Article 11 of Regulation S-X requires an issuer to prepare unaudited pro forma financial information that is intended to give effect as if a particular transaction, such as a significant recent or probable business combination, had occurred at the beginning of the financial period. Requirements for pro forma financial information under Article 11 are governed by the financial statements of the issuer rather than of the acquiree or other entity, as the pro forma results must be presented using the same basis of financial reporting as the issuer. The SEC is not proposing to amend Article 11. Therefore, an IFRS issuer would be required to prepare its pro forma financial information by presenting its IFRS results and would convert the financial statements of the business acquired (or to be acquired) to IFRS.

### Industry guides

Companies that are engaged in certain lines of business are subject to various Industry Guides. Several of the Industry Guides contain specific references to US GAAP pronouncements. The SEC is not proposing any specific amendments to the Industry Guides with respect to IFRS issuers. However, the SEC has indicated that an IFRS issuer that is subject to an Industry Guide should provide disclosure that satisfies the objective of the respective Industry Guide's disclosure requirements. For example, Industry Guide 3 requires disclosure as of the end of each reported period of the aggregate amount of loans classified as "troubled debt restructurings". The Industry Guide references FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* (Statement 15) for a definition of the term "trouble debt restructurings". Recognizing that Statement 15 does not exist in the IFRS body of literature, the proposed Roadmap suggests that an IFRS issuer should assess the objective of the disclosures required by Industry Guide 3 and provide similar disclosures in its filings with the SEC.

### Oil and gas companies

FASB Statement No. 69 *Disclosures about Oil and Gas Producing Activities* (Statement 69) establishes a comprehensive set of disclosures for oil and gas producing activities. Under Statement 69, public companies with such significant oil and gas producing activities are required to disclose unaudited supplementary information relating to proved oil and gas reserves, and capitalized costs relating to oil and gas producing activities. The SEC has proposed to continue to require IFRS issuers to provide the information called for under Statement 69. The SEC believes the information required by Statement 69 is useful to investors and would not otherwise be required to be disclosed under IFRS.

### **Form 8-K**

Form 8-K contains several items that contain references to specific standards included in US GAAP. The SEC is proposing to add instructions to those items to provide references to specific IFRS standards to which an IFRS issuer would refer instead of the US GAAP standards. Specifically, the SEC is proposing to add a new sentence at the end of the instructions of specific items to refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRS 5 *Non-current Assets for Sale and Discontinued Operations* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **Next steps**

While the ultimate timing of an IFRS reporting mandate in the US is not definitive, we continue to believe that it is a matter of “when and how” the shift will ultimately occur. In its proposed Roadmap, the SEC emphasized its ultimate goal – that is, for companies around the world to report under a single set of high quality global accounting standards for the benefit of investors and the global capital markets. This proposed Roadmap is a significant step along the path to realizing that goal.

While 2014 sounds like a long way off, many companies have already taken the first steps towards preparing for the inevitable conversion to IFRS. Although accounting driven, this change will affect many aspects of a company outside of the finance function such as information technology, human resources, and investor relations, to name but a few. It is important that companies allow ample time to assess the effects on their organizations of converting to IFRS and to develop appropriate planning strategies that will enable successful conversions.

Adoption of IFRS in the US has the potential to be the most significant financial reporting transformation US companies will ever encounter. It is essential that all constituents carefully consider the proposals and provide thoughtful feedback to the SEC before its 19 February 2009 comment deadline.

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- ▶ **SEC Reporting Series** – Includes our Annual Guide to Quarterly Financial Reporting, our Overview of Proxy Statement Requirements, and our SEC Annual Reports publication.
- ▶ **Accounting & Auditing Developments Database** – Provides an archive of developments relating to U.S. Standard Setter projects and more.

**Audit Committee Digest** – Information that helps audit committee members fulfill their responsibilities in the areas of independence, internal controls and financial reporting. The digest includes:

- ▶ **BoardMatters Quarterly** newsletter.
- ▶ Trends and articles on audit committee developments

Our **Global IFRS website** at [ey.com/ifrs](http://ey.com/ifrs) brings together:

- ▶ news and thought leadership (e.g., IFRS Outlook and the Supplements)
- ▶ technical materials (e.g., exposure drafts/comment letters, IASB meeting minutes)
- ▶ illustrative financial statements
- ▶ sector-specific guidance
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- ▶ Interim US Financial Reporting Checklist
- ▶ US Form 10K Registration Statement Checklist
- ▶ International GAAP Disclosure Checklist

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## Webcasts

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SCORE No. BB1664

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