

# Where Will the SEC Take the IFRS Roadmap? An AICPA Analysis of Comment Letters on the SEC's Proposal

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## Overview

During the past several years, the move toward a single set of high quality, globally accepted accounting standards has gained momentum. For example, in 2005 the European Union began requiring companies incorporated in its member states whose securities are listed on an EU-regulated stock exchange to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In 2007, the [U.S. Securities and Exchange Commission](#) (SEC) agreed to accept from foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to U.S. Generally Accepted Accounting Principles (GAAP). In September 2008, the [International Accounting Standards Board](#) (IASB) and the [U.S. Financial Accounting Standards Board](#) (FASB) updated and reaffirmed their "[Memorandum of Understanding](#)" to converge all major accounting standards (such as revenue recognition and leasing) by 2011 in light of a possible move to IFRS.

Most recently, the SEC released for public comment a [proposed roadmap for adoption of IFRS](#) by public companies in the U.S. Comment letters were due April 20, 2009 (extended from February 19, 2009). While many expressed support for the goal of high-quality globally accepted accounting standards, the request for comments produced numerous critics of the SEC's proposed roadmap. Commentators had serious concerns about the cost of adoption, the benefits of adoption compared to convergence, and whether IFRS were in fact as good as or better than U.S. GAAP.

The following analysis of the comment letters the SEC received represents the issues the SEC will grapple with as it considers the proposed roadmap and whether (or how) to transition U.S. public companies to IFRS from U.S. GAAP.

## Cost

By far the two most common criticisms of the roadmap were the cost of adoption and the belief that a more measured convergence process was the best option. The current financial crisis was often cited as a deterrent to mandating adoption soon. Several commentators mentioned that in this economy, it is not the time to increase the cost of doing business and a concern that benefits of adoption do not outweigh costs.

## Convergence over Adoption

Probably the clearest consensus among those opposed to the roadmap was the belief that continued convergence was a better option than adoption, mostly

because fuller convergence between both sets of standards would be less complex and less costly than IFRS adoption. Also, a number of companies agreed that the objectives of the proposed roadmap could be more cost-effectively achieved by continued convergence. If a decision is made in the future ultimately to adopt IFRS, many argue that the transition will be much easier and less costly after allowing more time for convergence.

Even those supportive of adoption urged the SEC to slow down. Under the roadmap calendar-year, large accelerated filers would be required to start filing financial statements using IFRS for the year ended December 31, 2014. Such a timetable would require these companies to start accumulating IFRS data beginning in 2012 because of the need for two years of historical comparative financial statements. The SEC said it would not make a final decision mandating IFRS until 2011. Consequently, the timeline as proposed in the roadmap does not allow sufficient time for conversion.

### **Consistency Not Guaranteed**

Many respondents acknowledged the desirability of eventually establishing a single set of high-quality global accounting standards. However, some question whether IFRS would necessarily allow for easy comparisons of financial statements due to variations of IFRS and the reliance on professional judgment when using the principles-based standards. IFRS proponents cite comparability of financial statements among public companies as one of the chief arguments in favor of adoption.

Other criticisms were concerned that principles-based IFRS would yield a wider variety of results than the more rules-based U.S. GAAP. This diminishes the benefit of comparability. Over time, some believe this situation will force IFRS to become more rules-based.

In addition, while improvement in global comparability will be a benefit to multinational corporations, companies with primarily domestic operations will not recognize the same benefit.

### **Specific Concerns by Specific Industries**

IFRS are less voluminous than U.S. GAAP in part because they contain little industry-specific guidance. Many commentators had certain concerns about how IFRS would impact their particular industry. For example, specific concerns were raised about provisions of IAS 41 - Agriculture, guidance for regulated industries, and the need for completion of the joint IASB/FASB project on accounting for insurance contracts. Companies that use LIFO (last in-first out inventory accounting method) were very concerned about the elimination of LIFO that would be required on a move to IFRS. Acceleration of income taxes would be substantial for many companies on such a move.

## **IASB Funding**

Other critics were concerned about the uncertainty surrounding funding for the IASB. Many believe that the IASB needs to have a more reliable and consistent funding method so it would be impervious to political or corporate pressure. Many said that until these uncertainties are appropriately addressed, a decision to adopt IFRS should be delayed.

## **What about Private Companies?**

Since the SEC regulates only public companies, comments also pointed to concern that the SEC was not recognizing that most companies in the U.S. are not SEC registrants (issuers). Some in the academic community raised the issue of information overload for accounting students. Using IFRS for public companies and U.S. GAAP for private companies means that students will need to learn two different sets of standards.

## **Importance of SEC Setting a Specific Date**

The proposed roadmap states that in 2011 the SEC will consider mandating phased-in adoption starting in 2014 based on the achievement of several milestones, including convergence of accounting standards and accelerated filers' use of IFRS. A number of respondents stressed the importance of the SEC setting a date certain for adoption and definitive deadlines, and sticking to them. Without a stated date for adoption or at least a commitment to adoption, companies do not appear willing to make a significant investment toward conversion.

## **Support for the Roadmap**

There certainly was support in the comment letters for the roadmap, particularly from the largest U.S. accounting firms, foreign-based constituents and some large multinationals.

The American Institute of Certified Public Accountants (AICPA) also expressed its support not only of a single set of comprehensive accounting standards to be used by public companies everywhere in the world, but also its belief that the standards issued by the IASB are best positioned to become those global standards. The AICPA recommended changes to the roadmap, including expansion of the early adoption option to smaller companies, the need for changes in the financial regulatory environment in the U.S., setting a date certain for adoption and improvement in funding mechanisms for the IASB.

While in the minority, some U.S. registrants generally supported the roadmap and mandatory adoption in the near term. These organizations noted the benefits of global comparability, increased transparency, decreased cost of global financial

reporting and the belief that converged standards would fall short of the benefits accruing from use of one global set of accounting standards.

## **Investors**

Views from investor groups will be especially important to the SEC in evaluating its roadmap. Responses from investor groups were mixed. Comments ranged from favoring IFRS adoption with investor-friendly milestones to support for a more evolutionary approach of continued convergence to serious concerns that roadmap milestones are inadequate and fail to provide assurance that use of IFRS by U.S. issuers will not reduce the quality of financial reporting. There were relatively few comment letters from investor organizations.

## **Where to Go from Here**

Release of the proposed roadmap in November 2008 was followed by expressions of concern about IFRS adoption from SEC Chairwoman Mary Schapiro in her confirmation hearings in January 2009. Many are wondering about the future of IFRS in the United States. The Commission will review the comment letters from the various stakeholders and plan a course of action. Most would probably agree that future direction from the Commission is eagerly awaited.

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