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### **Support Weak for U.S. IFRS Adoption as Commenters Address Details**

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Everyone supports the concept of a universal set of high-quality international financial reporting standards but when it comes down to actually requiring IFRS in the United States, entities and business associations are finding enough devils in the details of the Securities and Exchange Commission's proposal that they are suggesting major revisions or abandonment of the effort altogether, BNA found after a review of some of the nearly 240 comments on the proposal.

The comment period on the SEC's proposed "road map" for IFRS adoption closed April 20. Many of the early comments questioned whether the effort to steer U.S. financial report filers to international financial reporting standards would distract the agency as it tried with other government agencies to help resolve the financial market crisis. The Financial Accounting Foundation and the Financial Accounting Standards Board also urged taking a slow approach.

Troubled Citigroup Inc. added its voice April 20 to the chorus of companies questioning the benefits of preparing to switch to IFRS in the face of current economic troubles.

#### **Cost Higher Than Suggested**

Citigroup said the switch would cost "multiples" of SEC cost projections, which the agency pegged at between 0.125 percent and 0.13 percent of report preparers' revenue. Instead of IFRS adoption, Citigroup suggested the SEC should encourage the Financial Accounting Standards Board to accelerate its standards convergence project with the International Accounting Standards Board.

Many other comments filed around the April 20 deadline—extended from the earlier Feb. 19 deadline—also questioned the wisdom of devoting time and effort to IFRS in the current economic climate. But they also found other worries. Some said the SEC's proposed phase-in period of 2014 to 2016 was too compressed. Others said it was too stretched out. Some said the "milestones" the SEC identified for determining whether to require IFRS were inadequate or irrelevant. Some doubted the ability of even large companies to voluntarily adopt IFRS as early as SEC had hoped.

Some constituents questioned the proposal's requirement that financial statement filers, once they begin filing under IFRS, also reconcile to U.S. generally accepted accounting principles for the three years typically included in annual financial statements. Some worried the SEC plan lacked assurances that IFRS would provide information as good as that provided under U.S. GAAP.

Some said FASB and IASB should stick to their project begun in 2002 to jointly converge their standards into a single set. Others said adoption of IFRS would raise sticky U.S. tax problems that the SEC has never considered.

The SEC formally published its proposed road map to domestic adoption of IFRS Nov. 21, 2008. Under the proposal, the SEC would commit to decide in 2011 whether to require IFRS as promulgated by IASB. The SEC plan envisions phasing in the requirement starting in 2014 with the largest public companies, with all companies required to use IFRS by 2016.

### **SEC Chairman Mary Schapiro has signaled only lukewarm support for the IFRS proposal she inherited from former Chairman Christopher Cox.**

SEC Chairman Mary Schapiro has signaled only lukewarm support for the IFRS proposal she inherited from former Chairman Christopher Cox. Schapiro said at her Senate confirmation hearings that she was not obligated to follow through on Cox's road map, questioned whether the conversion benefits were worth what could be substantial costs, and voiced doubts that IFRS was as good as U.S. GAAP. The SEC proposal incorporates seven "milestones" that would weigh heavily in deciding whether to require IFRS. They are:

- continued improvement in FASB and IFRS standards and the narrowing of differences between them;
- progress toward a stable, secure, and independent funding mechanism for the International Accounting Standards Committee Foundation, which oversees IASB;
- improvement in the ability to use interactive data for IFRS reporting, such as XBRL (extensible business reporting language);
- early voluntary use of IFRS to demonstrate that its use will enhance comparability of financial reporting in the United States;
- sufficient education and training in IFRS of accountants, auditors, and investors;
- any future SEC rulemaking and its possible impact on the use of IFRS; and
- practical implementation issues surrounding IFRS that might emerge.

### **'Unrealistic' Timetable**

The Center of Capital Markets Competitiveness (CCMC) of the U.S. Chamber of Commerce, the nation's largest private sector business association, said that the "voluntary early use and overall timetable to mandate the use of IFRS are unrealistic considering the substantive nature of the issues that need to be resolved before the SEC can fully implement such a system."

"The framework for and details of the proposed Roadmap are incomplete and need to be reconsidered," the CCMC continued. "In particular, experience from voluntary early adoption is not the way to test the time, effort, or desirability of U.S. issuers transitioning to IFRS. Furthermore, the potential costs

involved, in such a harsh environment, need to be weighed against the immediate potential benefits. We strongly encourage the SEC to reconsider this proposed rule as drafted.”

**“We are unable at this time to even estimate [when] to make a determination to require or permit the use of IFRS by U.S. issuers.”**

***Jeff Mahoney, Council of Institutional Investors***

Eric Baggesen, senior investment officer for the California Public Employees' Retirement System (CalPERS), said early adoption by the largest companies could actually undermine the larger effort to eventually require all public companies to use IFRS. He said in April 20 comments that IFRS should be mandatory on a single date to ensure uniformity and comparability in financial reports for investors. Allowing early use by some report preparers could undermine that comparability, he said.

The SEC must ensure that IFRS are at least as good as U.S. GAAP before the Council of Institutional Investors, whose members manage more than \$3 trillion in assets, can support the switch, said CII General Counsel Jeff Mahoney in April 20 comments.

The SEC must make sure that “in the aggregate, the information that results from the application of international accounting and auditing standards is, at a minimum, of the same quality as the information resulting from U.S. accounting and auditing standards,” Mahoney said.

### **Milestones Seen as Insufficient**

Mahoney also said his group “strongly disagreed” that the milestones—including greater progress on GAAP-IFRS convergence—provide a sufficient framework for the SEC to judge whether IFRS are truly comparable in quality with U.S. GAAP. The SEC must study directly whether IFRS match U.S. GAAP quality and whether they deliver less useful information to investors, the CII said.

No adoption should occur until the SEC conducts such a study and fulfills all the other milestones, CII said. Also, it is “pure fantasy” to believe the milestones can be met by 2011, the group said.

“We believe that any [SEC] determination about requiring the use of IFRS by U.S. issuers should not be made until all of the milestones ... are fully satisfied,” CII said. “We believe that much planning and work remains to be done to achieve that goal and, therefore, we are unable at this time to even estimate the year in which it might be appropriate for the [SEC] to make a determination to require or permit the use of IFRS by U.S. issuers.”

The Corporate Roundtable on International Reporting (CRIR)—formed in 2008 to study the various business issues surrounding the use of IFRS—said in April 20 comments that so much variation exists among its 75 financial executives working for 30 U.S. companies that SEC should provide “additional analysis and reach a thorough understanding of the impact of the use of IFRS by U.S. registrants” before requiring IFRS adoption.

The additional analysis should be obtained by requiring the SEC's Office of the Chief Accountant to conduct a study on the impact of IFRS on investors, CRIR said.

CRIR said the views it found among its members generally fall into two categories—those believing continued movement toward FASB-IASB convergence is the best way to achieve a single set of global

standards, and those believing the SEC road map and mandatory IFRS adoption is best. Within that latter group, divergence persists on when and how to phase in mandatory IFRS, the organization said.

CRIR members also are concerned that “the FASB continues to promulgate standards that are inconsistent or divergent from IFRS, which will ultimately create distraction and make conversion [to IFRS] or convergence more difficult, challenging and costly,” the organization said. “For those members supportive of mandatory adoption of IFRS by U.S. registrants, the establishment of a date certain for adoption also requires a moratorium on new FASB promulgations prior to adoption of IFRS.”

CRIR said many U.S. agencies, including the Internal Revenue Service, might not be prepared to integrate their rules and procedures with IFRS by the 2014 first phase-in date.

### **U.S. Urged to Adopt IFRS Gradually**

Jamie Miller, vice president of accounting and controller at General Electric, said in April 21 comments his company favors a “modular” transition to IFRS, in which “phased-in mandatory conversions of related groups of IFRS standards into U.S. GAAP” would occur “over a reasonable period of time.” This would avoid the “far more complex, disruptive and expensive” approach of the current road map proposal, Miller said.

“In the current economic environment, we believe it is prudent to make every effort to minimize the cost and complexity of transitioning to IFRS,” said Miller, whose company generated more than half of its \$183 billion 2008 revenue from outside the United States. “The single conversion approach proposed in the Roadmap will cause significant internal resource constraints that would likely force some U.S. issuers to out-source important implementation steps to costly external service providers.”

Miller said the modular approach “would call for phased-in mandatory conversions of related groups of IFRS standards into US. GAAP. As a group of standards are identified for conversion, there may be inherent conflicts between the standards group to be adopted and other parts of U.S. GAAP affected by the change. These conflicts may be addressed through unique transition provisions or modifications to those other areas of U.S. GAAP.”

“A measured approach that phases in accounting changes over time will afford issuers the ability to thoughtfully implement each new accounting standard with sustainable internal processes while making more judicious use of external advisors,” Miller said.

Miller also said the “modular” approach would keep the United States properly involved in the accounting standard-setting process. “This point is particularly relevant during a period in which the IASB is reshaping its conceptual framework and developing some of its more significant accounting standards,” he said. “Also, this approach provides the opportunity for the SEC and other stakeholders to work through issues in the regulatory interface with IFRS standards prior to full adoption.”

The Federation of European Accountants, consisting of 43 professional organizations from 32 countries, said in April 21 comments that the overall five-year phase-in of the road map “should be more than sufficient for issuers to make the necessary preparations to IFRS.”

### **Dual GAAP, IFRS Filings Faulted**

Microsoft said the comparative filings in both GAAP and IFRS that the SEC contemplates requiring for three years as IFRS is adopted will make meeting the road map's deadlines difficult. Microsoft said it should be no more than two years.

"Microsoft believes it would be extremely difficult to meet the 2014 implementation date as outlined in the proposed Roadmap," said Bob Laux, senior director for financial accounting and reporting. "This is based on the fact that the Commission would only determine in 2011 whether to proceed with rules requiring U.S. issuers to prepare financial statements in accordance with IFRS."

"As outlined in the proposed Roadmap, Microsoft would need to present financial statements for fiscal years 2013, 2014, and 2015 in accordance with IFRS," Laux continued in comments filed April 20. "To have available data for fiscal year 2013, systems and processes would need to be in place to run parallel beginning July 1, 2012. Based on initial evaluations, a condensed implementation time will increase the costs of the implementation as well as potentially decrease the quality and efficiency of the implementation."

Financial Executives International's Corporate Reporting and Taxation committees said in their joint comment letter that the road map's time lines are too tight for U.S. entities to adjust to the required changes.

"The proposed conversion to IFRS will require a multiyear project involving changes to systems, processes and procedures, as well as retraining of the global workforce," FEI said in April 20 comments. "Companies will need to allow adequate time to carefully consider the impact of the implementation to their corporations, make the necessary changes for implementation, execute upon a plan and have the necessary comparative information available."

### **FEI Asks for Delay**

The FEI comments said the organization believes that the continuing uncertainties and complexities surrounding the road map justify delaying IFRS adoption by one to two years from the proposed 2014 date.

"Based on the actions of many of our [FEI] members, as well as the broader preparer community, many companies have slowed their progress on IFRS adoption until the SEC acts with a final decision and date," the organization said. "We believe the lack of a date certain is a barrier towards companies' progress on implementation, but a date certain must be evaluated only after a study has taken place which encompasses the various perspectives."

The need to prepare historical data for conversion to IFRS and requirements for information technology conversion probably will discourage any early adoption of IFRS, FEI said. The road map would allow for the largest companies to adopt IFRS as early as 2009 to help provide lessons and experience for other converters.

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***Financial Executives International***

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As for costs, “we believe that the ultimate costs will vary significantly from company to company, largely dependent on the complexity of the business and its systems,” FEI said.

Several comment letters also said that waiting until 2011 to decide whether to require IFRS and require it on the 2014-2016 schedule specified in the road map also breeds uncertainties. Companies would be better off if the SEC decided sooner to require mandatory conversion and set a date certain for its implementation, some constituents said.

### **Unconsidered Tax Consequences**

Tax Executives Institute (TEI) said in its April 20 comment letter that “taxing authority readiness” by both federal and state taxing authorities should be added as a new milestone in judging whether to move to IFRS.

TEI pointed out that taxpayers are currently required to notify IRS of their “methods of accounting” and ask permission for any change. IRS will need to address this ahead of time to prevent taxpayers from being required to continue to use U.S. GAAP for tax reporting purposes, and to prevent IRS from being swamped with requests for accounting changes, TEI said.

“The attendant changes to the accounting for income taxes under [Statement of Financial Accounting Standard No.] 109 and [International Accounting Standard No.] 12 would also be significant during the transition period,” TEI said. “Issuers’ deferred tax assets and liabilities would swing dramatically as requests for changes in methods of accounting are filed with, and ultimately approved by, IRS.

Additionally, differences between U.S. GAAP and IFRS could create new deferred tax items.” TEI suggested IRS adopt some type of blanket request procedure prior to mandatory use of IFRS. A change to IFRS also will affect transfer pricing methodologies, including changes to negotiated advance pricing agreements with IRS, raising the question of whether such agreements would have to be renegotiated or revised, according to TEI.

Moving to IFRS would also affect state formulas for determining taxable activity within the state, TEI said. For example, changes in revenue recognition policies under IFRS “could significantly affect a corporation’s sales factor and ultimately the amount of income apportioned to each state.”

IRS also will need to reconsider its Schedule M-3, the form under which taxpayers reconcile book-tax differences.

“TEI believes the time required by the IRS and state authorities to prepare for this change has been underestimated.” While IRS has embarked on a project to identify and deal with issues raised by IFRS conversion, TEI said these “important first steps” are insufficient, and both tax authorities and financial statement issuers need more time than provided.

TEI also was among those that argued the SEC’s proposed timetable is unrealistic, arguing instead for implementation beginning in 2016.

## **Enough Time for Both**

Taking a different view from most other commenters, PricewaterhouseCoopers said in April 20 comments that the SEC and other financial regulators should focus on solving the financial crisis, but enough time still exists to begin mandatory adoption of IFRS by 2014.

“With a proposed 2011 decision date, and a potential mandatory change anticipated to begin in 2014, there is enough flexibility in the time line outlined by the Proposed Roadmap,” PwC said. “Once the Commission has made sufficient progress on these other critical matters, it should turn its attention back” to adoption of IFRS beginning in 2014, the firm said.

PwC also said the SEC should introduce certainty into the process by mandating now a firm date for adopting IFRS, thereby removing doubt that it could back away in 2011.

The SEC should also ensure the transition to IFRS requires the submission of only one year of comparative data in both IFRS and U.S. GAAP, not three as the present road map requires, the firm said. The extra years of both IFRS and GAAP filings cause only increased expense and complexity without any additional useful comparability, PwC said.

PwC also suggested that all large accelerated filers—those with at least \$750 million of market capitalization—be allowed to adopt IFRS voluntarily prior to the mandatory date to maximize the available experience of IFRS use on which later adopters could draw. The SEC currently envisions only the largest, U.S.-based multinational companies—about 110 of them—from 34 specified industries being able to early adopt. Such a broadening of early eligibility could enhance the ability of U.S. companies to attract capital, PwC said.

“Because most investors outside of the U.S. are familiar with IFRS, allowing all large accelerated filers to early adopt IFRS will increase their pool of potential investors and therefore the amount of capital available to them,” PwC said. “We expect that this will reduce the cost of raising new capital and thereby benefit issuers and their existing investors.”

BDO Seidman voiced some of the same doubts as PwC on limiting early adoption to only the largest companies.

“We believe that the proposed eligibility requirements for early adoption limit the opportunity to learn, prior to mandatory adoption dates, and do not provide incentives for companies to early adopt,” BDO Seidman wrote in April 20 comments.

“We believe that expanding the eligibility to use IFRS to companies regardless of size would provide a broader preview of how adoption of IFRS would function in the U.S. capital markets by clarifying uncertainties about investor understanding, preparer education, auditor effectiveness, regulatory enforcement, and application and acceptance of professional judgments under IFRS,” BDO Seidman added.

*By Steven Marcy*