



FASB and the IASB Announce Delays in Their Completion of International Financial Reporting Standards Convergence Projects and the SEC Announces Roundtable on IFRS

In April 2011, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) released a joint progress report regarding their convergence program for U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). The FASB and IASB explained that they had completed five important projects under their memorandum of understanding (MOU).¹ However, three projects have yet to be completed: revenue recognition, leasing and financial instruments. The FASB and IASB are also working on an insurance contracts project outside of the MOU. The progress report stated that the FASB and IASB anticipate completing the projects in the second half of 2011. The report represents a relatively short delay compared to earlier projections. In November 2010, the FASB and IASB announced that they anticipated completing the three projects by June 2011. A final standard regarding insurance contracts is not expected until 2012. At the same time that the FASB and IASB were releasing these joint reports, related press releases and other materials, the Securities and Exchange Commission (SEC) announced that it will sponsor a Roundtable on July 7, 2011 to discuss benefits or challenges in potentially incorporating IFRS into the financial reporting system for U.S. issuers.²

In a podcast broadcasted in connection with the release of the progress report, FASB Chairman Leslie Seidman explained that, with respect to each individual project, the FASB and IASB will need to determine, prior to completion of the project, whether re-exposure of the applicable standard is necessary. Chairman Seidman explained that the re-exposure may be done formally or informally. Re-exposing the standards for public review will extend the time necessary for completion of any given project. The Financial Executives International immediately wrote to the chairs of the FASB and IASB boards asking that Exposure Drafts be released regarding each project with 90-day comment periods.³

Completion of the convergence project by the FASB and IASB is only the first step in the potential adoption of IFRS by the SEC for U.S. issuers. In February 2010, the SEC announced that it expected to be able to decide, in

¹ The MOU, which was issued in 2006 and updated in 2008, sets forth the plans of the FASB and the IASB to improve IFRS and U.S. GAAP and to achieve their convergence.

² "SEC Announces Roundtable on International Financial Reporting Standards," SEC Press Release, April 20, 2011, on SEC website, <http://www.sec.gov/news/press/2011/2011-95.htm>.

³ See FEI letter to the Chairs of FASB and IASB Boards, FEI website, <http://www.financialexecutives.org/eweb/upload/FEI/FEI%20Standard%20Setting%20Due%20Process.pdf>.

2011, whether IFRS should be adopted for U.S. issuers. Assuming that deadline was met with a decision to adopt IFRS, the SEC stated that it believed the first reports by U.S. issuers under IFRS would be completed in 2015 or 2016. It is likely that there would be staggered implementation dates commencing in 2015 and continuing through 2018. At this time there is no information available regarding the effect the FASB/IASB deferral would have on the timing of the SEC's decision regarding the adoption of IFRS and, if adopted, the ultimate adoption timeline.

Background

IFRS is a set of accounting standards developed by the IASB that is becoming the global standard for the preparation of public company financial statements.⁴ The IASB is an independent standards-setting body based in London.⁵ As of April 2011, approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although 90 countries have fully conformed with IFRS as promulgated by the IASB.⁶

International standards setting for financial reporting has been on the agenda for some time. The SEC, in a report to Congress in 1997, encouraged the efforts of the International Accounting Standards Committee (IASC) to develop a core set of accounting standards that could serve as a framework for financial reporting in cross-border offerings.⁷ The current IFRS is the result of the IASC's efforts.⁸ The SEC's first steps in adopting international standards applied only to foreign private issuers. In December 2007, the SEC adopted rules, effective as of March 4, 2008, allowing foreign private issuers to file financial statements prepared in accordance with IFRS, as issued by the IASB, without reconciliation to U.S. GAAP.

Conclusion

If the SEC adopts IFRS, it will be for all U.S. issuers, even if there is a staggered timeline for adoption. Accordingly, the scope of IFRS use by public companies that are traded in the United States will be expanded exponentially. Despite the deliberations over the last years, the SEC is not ready to make a decision regarding the adoption of IFRS without carefully considering and deliberating over whether it is in the best interest of the U.S. investors and markets.⁹ The SEC anticipates that it will collect valuable information at the IFRS Roundtable to help it do so.¹⁰ The Roundtable will feature three panels representing investors, smaller public companies and regulators. The Roundtable will be open to the public and will be available by webcast on the SEC website.

In developing the standards of U.S. GAAP over time, governmental, financial, accounting, legal and educational bodies in the United States have expended immeasurable efforts. While international standardization of such principles may be a worthy goal as markets and economies become increasingly global every year, it is not surprising that many U.S. stakeholders find themselves very invested in the review of IFRS. The market will be watching this Roundtable and other events closely to judge the potential adoption of IFRS in the United States.

⁴ See AICPA IFRS Resources, "IFRS FAQs," AICPA website, http://www.ifrs.com/ifrs_faqs.html, accessed April 2011.

⁵ See *id.*

⁶ See *id.*

⁷ See Commission Statement in Support of Convergence and Global Accounting Standards, Release Nos. 33-9108, 34-61578 (Feb. 27, 2010).

⁸ See *id.*

⁹ "SEC Announces Roundtable on International Financial Reporting Statements," SEC Press Release, April 20, 2011, on SEC website, <http://www.sec.gov/news/press/2011/2011-95.htm>.

¹⁰ See *id.*

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