

## **GOODBYE ROADMAP, HELLO WORK PLAN: SEC CONTINUES TO CONSIDER USE OF IFRS BY U.S. ISSUERS**

March 17, 2010

To Our Clients and Friends:

On February 24, 2010, the SEC issued a statement updating its consideration of global accounting standards. The statement both re-affirms the SEC's continued belief that a single set of high quality globally accepted accounting standards is consistent with its mission and encourages the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). In considering responses to the SEC's 2008 IFRS "Roadmap" proposal, the SEC determined to produce a more comprehensive "Work Plan" to facilitate its decision on whether to incorporate IFRS into the U.S. financial reporting system for domestic issuers. Assuming successful and timely completion of the Work Plan and the currently ongoing FASB-IASB convergence projects, the SEC believes that it will be in a position in 2011 to determine whether to incorporate IFRS. Assuming that the SEC determines to proceed with the incorporation of IFRS, U.S. issuers are expected to be afforded a multi-year transition period with 2015 or 2016 as the targeted first year in which U.S. issuers would report under IFRS. Unlike the Roadmap, the Work Plan does not specifically contemplate early IFRS adoption by U.S. issuers.

The Work Plan is not meant to produce specific methods or dates for the possible incorporation of IFRS into the U.S. domestic reporting system. Instead, the Work Plan is meant to produce information to help the SEC assess six critical areas of concern that were highlighted by commenters in response to the Road Map and facilitate future SEC consideration of transitioning the U.S. domestic reporting system to incorporate IFRS. Frequent Work Plan progress reports will be forthcoming beginning no later than October 2010 and will follow until the work under the plan is complete. The SEC's statement regarding the Work Plan, including a copy of the Work Plan, is available at <http://www.sec.gov/rules/other/2010/33-9109.pdf>.

### **CRITICAL AREAS OF ANALYSIS UNDER THE WORK PLAN**

Under the Work Plan, the SEC will analyze six general areas of concern (summarized below) in order to facilitate its consideration of whether to incorporate IFRS into the U.S. domestic reporting system.

The first two areas consider characteristics of IFRS and its standard setting, and the remaining four areas relate to transactional considerations:

- Sufficient development and application of IFRS for the U.S. domestic reporting system such that IFRS (i) is comprehensive in scope, (ii) is comprised of a set of auditing standards that are auditable and enforceable and (iii) are subject to consistent and high-quality application such that U.S. investors ultimately benefit from the comparability of financial information from issuers on a worldwide basis.
- Satisfactory (i) functioning of the IASB's governance structure, including oversight and composition of the IFRS Foundation (the body that oversees the IASB) and composition of the IASB, (ii) developments to secure a stable, broad-based source of funding for the IFRS Foundation and (iii) improvements to the IASB standard-setting process, to ensure standard setting that is accountable, independent and free from undue influence.
- Sufficient investor comprehension of and education regarding IFRS.
- The impact that a change to the SEC's accounting standards through incorporation of IFRS would have on (i) SEC rules and procedures, (ii) the FASB's role as the U.S. private-sector accounting standard-setter, (iii) U.S. issuers, including existing corporate governance requirements, accounting policies and procedures and internal controls, as well as their compliance with U.S. GAAP-based or U.S. GAAP-influenced industry, regulatory or other reporting requirements and (iv) PCAOB audit standards.
- Human capital readiness, including the effect of the incorporation of IFRS on the education and training of accountants, auditors and others involved in the preparation and use of financial statements and any impact on auditor capacity.

### **ANTICIPATED TIMING, TRANSITION AND OTHER MATTERS**

No SEC determination regarding IFRS will be forthcoming until the analysis called for by the Work Plan and the FASB-IASB convergence projects are completed. As such, it is possible that the projected 2011 date of determination may be delayed. Further, the SEC's discussion of the transition period indicates only that 2015 or 2016 are approximate dates for reporting by U.S. issuers under IFRS.

While some manner of early use or adoption of IFRS by U.S. issuers (*e.g.*, prior to 2015) may be possible, any SEC decision regarding early use or adoption will depend on the overall approach to incorporate IFRS into the U.S. domestic reporting system.

Investment companies registered under the Investment Company Act of 1940 and certain other regulated entities (*e.g.*, broker-dealers), as well as private companies, were excluded from the scope of the Roadmap. The Work Plan reserves on these points pending further analysis.

Finally, it is not clear what (if any) role U.S. GAAP will play should the SEC decide to incorporate IFRS into the U.S. domestic reporting system. While the SEC has not foreclosed the possibility that in the future U.S. issuers may be permitted to choose between IFRS and U.S. GAAP, it is conceivable that IFRS could become mandatory for all U.S. issuers.

### **FINAL THOUGHTS**

While the Work Plan supplants the Roadmap as the SEC's primary tool for considering whether to approve the use of IFRS by U.S. issuers, the details of the Work Plan reflect many of the same themes, questions and concerns expressed in the Roadmap. What is noteworthy about the Work Plan is the scope of the analysis required of the SEC staff. In light of the fundamental fact that a transition to IFRS reporting by U.S. issuers would reduce the influence of U.S. capital market participants and the SEC on the accounting standard setting process generally, it is not surprising that the SEC decided to revert to the more deliberate and thoughtful approach embodied by the Work Plan.

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Please do not hesitate to call us to discuss the Work Plan or this memorandum generally.

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