
Straight away

IFRS bulletin from PwC

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SEC releases final report on IFRS 'Work Plan'

What's the issue?

The SEC staff has published its final report ('the staff report') on its 'Work Plan' intended to help the SEC evaluate the implications of incorporating IFRS into the US financial reporting system.

The SEC published a statement in early 2010 of continued support for a single set of high-quality, global accounting standards and acknowledged that IFRS is best positioned to serve that role. The SEC initiated the 'Work Plan' at that time to obtain information about whether, when and how IFRS might be incorporated into the US financial reporting system.

What is in the report?

It is first of all worth noting what's not in the report: it does not include a final policy decision as to whether IFRS should be incorporated into the US financial reporting system, or how such incorporation should occur. The Work Plan was not intended to provide an answer to the question of whether a transition to IFRS is in the best interests of US capital markets and US investors. Instead, it is an important step in the SEC's decision-making process.

The staff indicates in the report that IFRS is generally perceived to be of high quality. However, there are areas where gaps remain (for example, the SEC cites accounting for extractive industries, insurance and rate-regulated industries), and inconsistencies exist in the application of IFRS globally. These findings were set out in two separate staff

papers issued last year, *A Comparison of US GAAP and IFRS and an Analysis of IFRS in Practice*.

The staff also believes that improvements can be made to the IFRS interpretative process, and the enforcement and co-ordination activities of regulators across territories. Finally, although it acknowledges that progress has been made, it believes enhancements should be made to the IASB's co-ordination with individual country standard setters and the IASB's funding process. Many of the SEC's findings are broadly consistent with the conclusions of the IFRS Foundation Trustees and Monitoring Board Strategy and Governance Reviews published earlier this year.

The report does not address whether US public companies should have the option to adopt IFRS on a voluntary basis. However, it does state that investors are generally in agreement that companies should not be permitted to adopt IFRS early, because this would compromise comparability with US companies applying US GAAP.

What conclusions does it reach?

As noted above, the report does not reach any conclusions about incorporating IFRS. However, it does state that adopting IFRS as authoritative guidance in the US is not supported by the vast majority of participants in the US capital markets and would not be consistent with the methods of incorporation followed by other major capital markets (for example, the endorsement process followed by the European Commission).

On the other hand, the staff found there to be substantial support for exploring other methods of incorporating IFRS that demonstrate the US commitment to the objective of a single set of high-quality, global accounting standards. Last year, the staff issued a paper on one possible method, involving an active FASB incorporating IFRS into US GAAP over an extended period of time.

Who's affected?

US public companies will be affected by any decision ultimately made about whether, when and how IFRS might be incorporated into the US financial reporting system.

There will be no direct impact outside of the US, but the lack of a clear date for a

final US decision on IFRS adoption may influence the pace at which other countries move their own IFRS adoption programmes forward.

What's next?

The report indicates that additional analysis is necessary before any SEC decision is made about incorporating IFRS into the US financial reporting system. The timing of this additional activity is currently unknown but could extend beyond 2012.

The staff has not requested comments, but welcomes feedback on the report.

The Chairman of the IFRS Foundation Trustees has expressed regret that the SEC Report does not contain a recommended action plan on next steps.