

**Work Plan for the Consideration of Incorporating
International Financial Reporting Standards
into the Financial Reporting System
for U.S. Issuers**

Exploring a Possible Method of Incorporation

**A Securities and Exchange Commission
Staff Paper
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OFFICE OF THE CHIEF ACCOUNTANT
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

This is a paper by the Staff of the U.S. Securities and Exchange Commission.
The Commission has expressed no view regarding the analysis, findings, or
conclusions contained herein.

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I. Introduction

In the *Commission Statement in Support of Convergence and Global Accounting Standards*,¹ the U.S. Securities and Exchange Commission (“SEC” or “Commission”) directed the staff of the Office of the Chief Accountant of the SEC, with appropriate consultation with other Divisions and Offices of the Commission (collectively, “Staff”), to develop and execute a work plan (“Work Plan”).² The Staff’s Work Plan was published in February 2010. The purpose of the Work Plan is to consider specific areas and factors relevant to a Commission determination as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting Standards (“IFRS”).³ In connection with the completion of the Work Plan, it was anticipated that the Staff would study multiple approaches for incorporating IFRS into the U.S. financial reporting system and seek public feedback if appropriate.

The Commission has not yet made a decision as to whether and, if so, how, to incorporate IFRS into the financial reporting system for U.S. issuers. While the Staff’s work on the Work Plan continues, including assessing the quality of the standard setting process, the focus of this Staff Paper is to outline a possible approach for incorporation of IFRS into the U.S. financial reporting system, if the Commission were to decide that incorporation of IFRS is in the best interest of U.S. investors. This Staff Paper does not provide an extensive discussion of a potential timeline of incorporation. That is not to diminish the importance of the timing of incorporation but reflects the fact that the timeline for incorporation is a separate consideration.

In various forums, the Commission and its Staff previously have described and sought public comments on several other possible approaches for progressing toward a single set of high-quality, globally accepted accounting standards. Those approaches include: full adoption of IFRS on a specified date, without any endorsement mechanism; full adoption of IFRS following staged transition over several years, similar to the approach described in the Commission’s *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*;⁴ and an option for U.S. issuers to apply IFRS, as described in the Commission’s Concept

¹ See SEC Release No. 33-9109 (Feb. 24, 2010), Commission Statement in Support of Convergence and Global Accounting Standards (“2010 Statement”).

² The Work Plan is included as an appendix to the 2010 Statement.

³ As used in this Staff Paper, the term “IFRS” refers to “IFRS as issued by the IASB,” unless otherwise noted. Further, the term “IFRS” refers to the authoritative text of IFRS, which, according to the IFRS Foundation Constitution, is published in English. See “International Financial Reporting Standards as issued at 1 January 2010, Preface to International Financial Reporting Standards.” The “IASB” is the International Accounting Standards Board. “IFRSs” refers to more than one International Financial Reporting Standard.

⁴ See SEC Release No. 33-8982 (Nov. 14, 2008), Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers (“Proposed Roadmap”).

Release⁵ and the Proposed Roadmap. In addition, in response to the requests for comment on these alternative approaches, some commenters have suggested that the United States retain U.S. generally accepted accounting principles (“GAAP”) with continued convergence efforts, with or without a specific mechanism in place to promote alignment with IFRS. The Staff believes these alternative approaches for incorporation, and the associated benefits and risks, are more well-understood than the approach discussed herein, at least in concept, and, accordingly, such alternative approaches are not discussed further in this Staff Paper. Instead, this Staff Paper describes a possible framework of incorporation that has not been described in as much detail and outlines benefits and risks that may be associated with this incorporation approach. Incorporation of IFRS through the framework described in this Staff Paper would have the objectives of achieving the goal of having a single set of high-quality, globally accepted accounting standards and of providing for a U.S. issuer complying with U.S. GAAP also to be in a position to assert that it is compliant with IFRS as issued by the IASB.

The Staff’s discussion in this Staff Paper is not intended to suggest that the Commission has determined to incorporate IFRS or that the discussed framework is the preferred approach or would be the only possible approach. The framework is presented to illustrate that:

1. The decision faced by the Commission in an effort to achieve a single set of high-quality, globally accepted accounting standards is not necessarily a binary decision (i.e., either to require the use of IFRS by all U.S. issuers immediately or not);
2. Incorporation of IFRS is not inconsistent with the SEC maintaining its ultimate authority over U.S. accounting standard setting; and
3. There are potential ways to accomplish the broad objective of pursuing a single set of high-quality, globally accepted accounting standards while minimizing cost, effort, and other transition obstacles.

The framework explored in this Staff Paper is predicated on several principles. First, U.S. GAAP would be retained, but the Financial Accounting Standards Board (“FASB”) would incorporate IFRS into U.S. GAAP over a defined period of time, with a focus on minimizing transition costs, particularly for smaller issuers. The FASB would incorporate newly issued or amended IFRSs into U.S. GAAP pursuant to an established endorsement protocol. This would require a change to how the FASB currently operates. Similar to other jurisdictions, the endorsement protocol would provide the Commission and the FASB the ability to modify or supplement IFRS when in the public interest and necessary for the protection of investors. Such framework would share many key features of other major jurisdictions’ processes for incorporating IFRSs into their respective national financial reporting frameworks. However, whereas many countries chose to align existing accounting standards with IFRS through a “first-time adoption” of

⁵ See SEC Release No. 33-8831 (Aug. 7, 2007), Concept Release On Allowing U.S. Issuers To Prepare Financial Statements In Accordance With International Financial Reporting Standards.

IFRS and thereafter keep pace with new or amended IFRSs through endorsement procedures, the framework explored in this Staff Paper would include a transitional period during which existing differences between IFRS and U.S. GAAP would be eliminated through ongoing FASB standard-setting efforts.

While certain operational aspects of the framework are discussed in this Staff Paper, the framework represents only one possible approach to incorporation of IFRS. The details of this framework, and other potential methods of incorporation, would need to be subject to further review and development, if and when the Commission determines that IFRS should be incorporated into the financial reporting system for U.S. issuers. Lastly, in various forums, the notion of an early-adoption option for U.S. issuers to use IFRS has been discussed. While the consideration of an option is beyond the scope of this Staff Paper, the Staff is continuing to consider the possible mechanics and implications of an option for U.S. issuers and how it would work in the context of the framework or otherwise.

II. Summary of Other Jurisdictions' Approaches

In October 2010, the Staff published a progress report (“2010 Progress Report”)⁶ that discussed each section of the Work Plan and provided an update of the Staff’s efforts and preliminary observations. One of the preliminary observations discussed in the 2010 Progress Report related to the Staff’s analysis of how other jurisdictions incorporate IFRS into their reporting systems and how those jurisdictions address concerns regarding the regulatory responsibility of the jurisdiction’s capital market regulators, the impact on national standard setters, and the consequences for other bodies responsible for the broader accounting standard-setting process. Although the methods of incorporation differ across jurisdictions, the Staff’s research to date has shown that jurisdictions generally have incorporated or intend to incorporate IFRS into their reporting requirements for listed companies by either: (1) full use (without intervening review) of IFRS as issued by the IASB or (2) use of IFRS after some form of national or multinational incorporation process, which could lead to the full use of IFRS as issued by the IASB or some local variation thereof. Regardless of the method of incorporation applied, jurisdictions also require compliance with national laws and regulations. The Staff has been informed through its research that any additional disclosures required by such laws or regulations are typically incremental to, but not inconsistent with, IFRS.

Under the approach in the first of the above categories, countries recognize or accept IFRS as issued by the IASB. IFRSs are applicable in the jurisdiction once issued by the IASB, without approval by any local body.⁷ Although this approach would seem to have the least potential to create deviations from IFRS as issued by the IASB, it also has the potential to result in a much greater degree of reliance by a national regulator (or other body) in exercising its authority and fulfilling its responsibility for investor protection on an independent, private sector standard-setting body with a multinational constituent base. Based on the Staff’s research thus far, very few jurisdictions follow this approach.

The second category comprises jurisdictions that use IFRS after some form of a national or multinational incorporation process. Although most of these jurisdictions maintain the objective of adopting IFRS without variation, some jurisdictions following this approach have not adopted IFRSs as issued by the IASB or followed the effective date provisions specified by the IASB. Although this approach allows for greater ability to address country-specific issues, it could have an impact on the perception of the use of a single set of high-quality, globally accepted accounting standards.⁸

⁶ See U.S. Securities and Exchange Commission, Office of the Chief Accountant and Division of Corporation Finance, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, Progress Report (October 29, 2010).

⁷ Based on the Staff’s research, the jurisdictions following this approach generally do not have a mechanism to make changes to the IFRSs that are issued by the IASB without affirmative government action.

⁸ The IASB’s website describes many jurisdictions that use this approach as jurisdictions that “require” or have “adopted” IFRS. See <http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm>.

As described in the 2010 Progress Report, countries using a national incorporation process generally can be further divided into: (1) those countries that converge their local standards with IFRS without a firm commitment to incorporate fully IFRS as issued by the IASB (“Convergence Approach”); and (2) those countries that undertake some form of local endorsement (“Endorsement Approach”).

Convergence Approach

Under the Convergence Approach, jurisdictions do not adopt IFRS as issued by the IASB or incorporate IFRSs into their accounting standards directly.⁹ Instead, these jurisdictions maintain their local standards but make efforts to converge those bodies of standards with IFRS over time. One example of a country using the Convergence Approach is the People’s Republic of China (“PRC”), which is moving its standards closer to IFRS without incorporating IFRS fully into its national financial reporting framework.¹⁰ The PRC has indicated that it intends to make an effort to eliminate the existing differences between its Accounting Standards for Business Enterprises (“ASBEs”) and IFRS.¹¹

Endorsement Approach

Based on the Staff’s research, a large number of countries (e.g., countries within the European Union (“EU”)) appear to follow a form of the Endorsement Approach. Under this approach, jurisdictions incorporate individual IFRSs into their local body of standards. Many of these jurisdictions use stated criteria for endorsement, which are designed to protect stakeholders in these jurisdictions. The degree of deviation from IFRS as issued by the IASB can vary under this approach. In some cases, countries appear to adopt standards exactly as issued by the IASB with a high threshold for any country-specific deviation. In other cases, countries translate IFRS as issued by the IASB into their local language. Because words or expressions may not have direct equivalents in some languages, translated versions of IFRS may be understood and applied differently from IFRS as issued by the IASB in English. In still other cases, countries make modifications or additions to individual IFRSs upon incorporation for various reasons (e.g., to address the perceived need for country- or industry-specific guidance or to incorporate interpretative guidance previously issued by a jurisdiction’s regulator).

⁹ Although the joint projects between the U.S. Financial Accounting Standards Board (“FASB”) and the IASB are often denominated “convergence,” those projects are different from the Convergence Approach described here. The FASB-IASB process involves movement by both standard setters toward a new, mutually-acceptable high-quality standard, while the Convergence Approach involves movement by a country toward existing IFRS.

¹⁰ Refer to the 2010 Progress Report for further discussion on the specifics of the PRC’s convergence process.

¹¹ In 2006, the PRC’s Ministry of Finance Order No. 33 declared a revised set of ASBEs would become effective in 2007. According to the World Bank’s *Report on the Observance of Standards and Codes (ROSC) – Accounting and Auditing: People’s Republic of China* (October 2009), these ASBEs are “substantially converged” with IFRS. On September 2, 2009, the PRC issued an exposure draft of its *Roadmap for Continuing and Full Convergence of the Chinese Accounting Standards for Business Enterprises with the International Financial Reporting Standards*. Based on this exposure draft, the PRC has indicated that it intends to make an effort to eliminate the existing differences between ASBEs and IFRS by the end of 2011.

As noted above, a significant number of jurisdictions following the Endorsement Approach are the countries within the EU. If a company is governed by the law of an EU Member State (“Member State”), and if the company’s securities are traded on a regulated market in any Member State, the company is required to prepare its consolidated financial statements in accordance with the international accounting standards adopted by the European Commission (“EC”).¹² Changes to IFRS (either newly-issued standards or amendments to existing standards) must go through multiple steps before becoming authoritative in the EU.¹³ However, it is the Staff’s understanding that the EU’s legal framework does not permit changes to the IASB’s standards and interpretations, although partial adoption (referred to as a “carve-out”) is possible. To date, the EC has adopted all international accounting standards and interpretations as issued by the IASB, with the exception of certain provisions on hedge accounting that have been carved-out of IAS 39, *Financial Instruments: Recognition and Measurement*.¹⁴ The length of the endorsement process can introduce a lag between the issuance of standards and interpretations by the IASB and their adoption by the EC, although adoption normally occurs before the application deadline foreseen by the IASB.

Australia is another example of a jurisdiction following the Endorsement Approach. The Australian Accounting Standard Board (“AASB”), the Australian national standard setter, has issued a framework document, *Framework for the Preparation and Presentation of Financial Statements*, that incorporates the *Framework for the Preparation and Presentation of Financial Statements*, as issued by the IASB, but adds paragraphs specific to Australia where required by the Australian regulatory regime.¹⁵ In addition, each time the IASB issues an exposure draft or invitation to comment, the AASB publishes an equivalent document, with an Australian preface seeking comment on domestic issues that may be raised in response to the IASB document. Despite the added procedural steps, the AASB has kept pace with the IASB, incorporating the final IFRSs as issued and following the same effective dates as those set by the IASB.

¹² Required under Regulation (EC) No 1606/2002 regarding the application of international accounting standards, passed by the European Parliament and European Council on July 19, 2002. The requirement entered into force in 2005 and is binding and applicable to all Member States.

¹³ Refer to the 2010 Progress Report for further discussion on the specifics of the EU endorsement process.

¹⁴ A prior carve-out relating to the use of the fair value option in IAS 39 has since been repealed.

¹⁵ Australian law does not specify the exact mechanism by which the AASB incorporates IFRSs into Australian standards, although there is a process in place. IFRS adoption in Australia by the AASB occurred under a broad strategic direction given to the AASB by the Financial Reporting Council (“FRC”) under the powers given to the FRC by legislation. The FRC is the body responsible for the broad oversight of the accounting and auditing standard-setting processes in Australia.

III. Framework

Another possible incorporation approach, colloquially referred to as “Condonement,” was discussed in December 2010 by a member of the Staff at the 2010 AICPA National Conference on Current SEC and PCAOB Developments (“2010 AICPA Conference”).¹⁶ This concept generated interest and questions regarding a more detailed explanation of the approach. The following discussion focuses on this approach and provides more detail on how it could be applied to the U.S. financial reporting system and why the United States could consider this approach.

This approach to incorporation is in essence an Endorsement Approach that would share characteristics of the incorporation approaches with other jurisdictions that have incorporated or are incorporating IFRS into their financial reporting systems. However, during the transitional period, the framework would employ aspects of the Convergence Approach to address existing differences between IFRS and U.S. GAAP. Importantly, the framework would retain a U.S. standard setter¹⁷ and would facilitate the transition process by incorporating IFRSs into U.S. GAAP over some defined period of time (e.g., five to seven years). At the end of this period, the objective would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB. Incorporation of IFRS through the framework would have the objective of achieving the goal of having a single set of high-quality, globally accepted accounting standards, while doing so in a practical manner that could minimize both the cost and effort needed to incorporate IFRS into the financial reporting system for U.S. issuers. It also would align the United States with other jurisdictions by retaining the national standard setter’s authority to establish accounting standards in the United States.

The following discussion further explains the framework and how it may be employed in the United States on an ongoing, “steady state” basis through an explanation of the roles of some of the important groups and organizations that would be involved. Part IV of this Staff Paper discusses the transition framework for incorporating existing IFRSs into U.S. GAAP. In Part V, the Staff outlines certain benefits and risks that could be associated with the framework.

Role of the FASB in the United States

In order to fulfill the SEC’s mission of protecting investors, maintaining fair, orderly, and efficient capital markets, and facilitating capital formation in the United States, the Staff believes it will be important for the United States to continue to have an active role in the

¹⁶ See Paul A. Beswick, *Remarks before the 2010 AICPA National Conference on Current SEC and PCAOB Developments* (Dec. 6, 2010) (available at <http://www.sec.gov/news/speech/2010/spch120610pab.htm>).

¹⁷ Currently, the SEC recognizes the financial accounting and reporting standards of the FASB as generally accepted for purposes of U.S. financial reporting under Section 19(b) of the Securities Act of 1933 (“Securities Act”). See SEC Release No. 33-8221 (April 25, 2003), Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter. In its 2010 Statement, the Commission noted that “the FASB will continue to play a critical and substantive role in achieving the goal of global accounting standards,” and “that role would remain critical after adoption of global standards.”

international accounting arena to assist in the development and promotion of high-quality, globally accepted accounting standards; to be proactive in identifying new and emerging financial reporting issues; and to ensure that U.S. interests are suitably addressed in the development of those standards. The Staff believes that the FASB would be the existing body best equipped to fulfill this role in support of U.S. constituents under the framework and, in many ways, is already positioned to do so. Serving in its current role as the U.S. national accounting standard setter, the FASB's mission is "to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports."¹⁸ Based on the Commission's recognition of the continuing importance of the FASB, in the event that the Commission determines to incorporate IFRS, the Staff envisions that the FASB would remain the standard-setting body responsible for promulgating U.S. GAAP under the framework.¹⁹

For the endorsement aspect of the framework, the FASB would continue to participate in the development and improvement of accounting standards that foster high-quality financial reporting that provides decision-useful information to investors and other users of financial reports. However, the manner of participation as contemplated in the framework would differ considerably from the FASB's current standard-setting role and responsibilities for U.S. issuers. Most significantly, the FASB would participate in the process for developing IFRS, rather than serving as the principal body responsible for developing new accounting standards or modifying existing standards under U.S. GAAP. The FASB would play an instrumental role in global standard setting by providing input and support to the IASB in developing and promoting high-quality, globally accepted standards; by advancing the consideration of U.S. perspectives in those standards; and by incorporating those standards, by way of an endorsement process, into U.S. GAAP.²⁰ Additionally, the FASB would become an educational resource for U.S. constituents to facilitate the understanding and proper application of IFRS and promote ongoing improvement in the quality of financial reporting in the United States.

¹⁸ See FASB's mission statement (available at <http://www.fasb.org/facts/index.shtml#mission>).

¹⁹ Section 19(b)(1)(B) of the Securities Act specifies that in order to recognize the accounting standards of a private standard-setting body, the Commission must determine that the body "has the capacity to assist the Commission in fulfilling" the Commission's authority to prescribe accounting standards "because, at a minimum, the standard setting body is capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws."

²⁰ The Staff notes that the FASB's standards are used not only for reporting by public companies but also for privately-held companies. Therefore, any changes in the role of the FASB may have an impact on the accounting standards for privately-held companies; however, the Staff believes that the components of high-quality accounting standards should likely be similar for all companies. The FASB's determination of whether, and to what extent, there should be modifications to its standards for privately-held companies is outside the scope of this Staff Paper.

The FASB's participation in the IASB's standard-setting process could occur in several ways, including:²¹

- providing input into the IASB's strategic planning of the global standard-setting agenda, including setting project priorities;
- assisting the IASB, as needed, in carrying out specific standard-setting and research projects;
- participating in the development of illustrative examples and implementation guidance in coordination with the IASB;
- providing examples of and insight into U.S. perspectives as the IASB develops standards;
- helping to address implementation and interpretation issues by identifying them and undertaking research in support of the IFRS Interpretations Committee;
- playing a central role in the evaluation of standards on a post-implementation basis from the perspective of U.S. capital market participants and more broadly assisting the IASB in evaluating the effectiveness of standards (post-implementation reviews);
- assisting in communications between the IASB and U.S. constituents to facilitate widespread dissemination of information about IFRS and communication of U.S. constituents' concerns to the IASB;
- participating in meetings with other national standard setters;
- encouraging participation by U.S. constituents in the development of new and revised IFRSs; and
- developing the expertise and experience of individuals for participation in global standard-setting activities.

The FASB would continue to promulgate U.S. GAAP primarily through its endorsement of standards promulgated by the IASB. Under the framework, due to the FASB's participation in the IASB's standard setting process, the FASB should be in a position to readily endorse (i.e., incorporate directly into U.S. GAAP) the vast majority of the IASB's modifications to IFRS. However, the FASB would retain the authority to modify or add to the requirements of the IFRSs incorporated into U.S. GAAP, similar to other jurisdictions, and such U.S.-specific modifications would be subject to an established incorporation protocol. Such a protocol could entail the FASB determining whether the IASB's modification to IFRS (either by means of issuance of a new standard or amendment of an existing standard) met a pre-established threshold—for example, a threshold that incorporates the consideration of the public interest and the protection of investors.²² If the IASB's modification reaches that threshold, the FASB would

²¹ The potential roles and responsibilities of the FASB after a transition to IFRS would be consistent with the roles and responsibilities of a national standard setter after a country's adoption of IFRS. For example, such roles were described in Canada's Accounting Standards Board's ("AcSB") *Accounting Standards in Canada: New Directions, Accounting Standards Board Strategic Plan*, adopted by the AcSB on January 4, 2006.

²² Section 19(b)(1)(A)(v) of the Securities Act specifies that, for the Commission to recognize a standard-setting body's accounting principles as "generally accepted" for purposes of the securities laws, the standard-setting body is to consider, in adopting accounting principles, "the extent to which international

incorporate fully the IASB's adopted standard into U.S. GAAP. If the FASB concludes to the contrary, in incorporating the standard, it would need to determine whether it should modify the requirements of the standard, retain relevant U.S. GAAP, or find an alternative solution. Before making any modifications, the FASB could discuss the situation with other national standard setters to understand their perspectives on the issue and the approaches they have taken for endorsement of that standard in their respective jurisdictions.

In addition to incorporating new IFRS amendments into U.S. GAAP, the FASB also would exercise its authority as the national standard setter when it found, based on its experience in the ongoing interpretation or application of IFRSs incorporated into U.S. GAAP, that supplemental or interpretive guidance was needed for the benefit of U.S. constituents. Under the framework, the FASB should initially address this situation by informing the IASB of the potential gaps in authoritative guidance and providing the IASB a recommended solution to address the practice issues, but ultimately, the FASB could conclude an acceptable solution is not reached or the issue is not being addressed in a timeframe consistent with the needs of the U.S. capital markets. Accordingly, the FASB could exercise its authority in one or more of the following ways:

- adding disclosure requirements to those specified by IFRS, to address U.S. circumstances in a manner consistent with IFRS;
- prescribing which of two or more alternative accounting treatments permitted by IFRS on a particular issue should be adopted by U.S. issuers, to achieve greater consistency in U.S. practice; or
- setting requirements compatible with IFRS on issues not addressed specifically by IFRS. In particular, the FASB could decide to carry forward certain such requirements that already exist in U.S. GAAP, with any necessary conforming amendments.

If the FASB were to exercise this authority, a U.S. "flavor" of IFRS could result. However, U.S.-specific circumstances for which the FASB would consider modifying IFRS should be similar to the circumstances in which the Commission exercises its authority to amend or add to the standards issued by the FASB and, therefore, modifications should be rare and generally avoidable. The objective would be for U.S. GAAP to remain consistent with IFRS, and the FASB should find the need to exercise its authority to issue any requirement in conflict with IFRS in only unusual circumstances. Further, the FASB would be able to minimize potential variations by working closely with the IASB and other national standard setters. As required in other "endorsement" environments, any such modification (whether to a standard being incorporated or to a standard already being applied by establishing supplemental or interpretive guidance as

convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors." For example, the FASB could, under its existing manner of considering accounting standards, determine to adopt or incorporate newly issued IFRS into U.S. GAAP. This framework differs in that, while the FASB and U.S. GAAP would be retained, the way in which the FASB operates and the nature of U.S. GAAP would change.

set forth above) would need to be carefully and deliberately scrutinized through a transparent and comprehensive process.

The most likely example of a modification to IFRS is the possible continuation of some existing U.S. GAAP requirements that have no specific IFRS counterparts. As discussed in Part IV of this Staff Paper, such U.S.-specific changes to IFRS would remain in effect only until the IASB developed corresponding requirements, at which time the U.S.-specific requirements would be rescinded, subject to the FASB's endorsement of the IASB's new standard. The FASB's initial determination of modifications would occur as a component of the transition phase for existing differences that is discussed in Part IV, and any additions thereafter should be minimal. In addition, there may be a need for U.S. interpretations of IFRS on issues that are significant in the United States but not the remainder of the world.

Role of the SEC

If IFRS is incorporated into the U.S. financial reporting system, the Commission would maintain its oversight over the FASB as the designated U.S. national standard setter. However, the IASB interacts with a multinational constituent base of regulators and, therefore, the Commission would have a less direct oversight relationship with the IASB. Specifically, although the Commission and Staff would provide their perspectives to the IASB, regulators in different jurisdictions may have different or conflicting perspectives, thus having the potential to reduce the Commission's and Staff's impact on the IASB's standard setting. However, any incorporation approach would not, and could not, affect the Commission's longstanding responsibility under the federal securities laws to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation through its regulation, nor would it dilute the Commission's ultimate authority under the federal securities laws to prescribe accounting principles and standards to be followed by U.S. issuers and other entities that provide financial information to the SEC and investors. Therefore, monitoring of the standard-setting process, including the FASB's role in that process, would be vital.

Under the framework, the SEC would be actively engaged in the standard-setting process and with the broader activities of the IASB and its governance bodies. Many of the Commission's and Staff's activities would remain similar to those performed currently—such as participating on oversight committees, following the meetings and activities of the IASB's standard-setting projects, reviewing the drafts of standards and exposed documents, and providing feedback to the IASB and its staff—while other activities and interactions with the IASB and its staff would be expected to develop over time, including as discussed below.

Currently, the Commission and its Staff participate in the international standard-setting process and with the IASB in a variety of ways. In addition to the standard-setting oversight activities described above, the Staff participates on several IOSCO

committees²³ and the Commission plays a role in the governance of the international standard setter as a member of the Monitoring Board.²⁴ Under the framework, these interactions would remain similar to current practice. Additionally, the Staff would build upon the relationships currently held with the IASB and its staff to enhance the processes employed in the oversight of international standards development. Further, the Staff, particularly in the Office of the Chief Accountant, would expand its relationships with other securities regulators with respect to interpretations of accounting matters in order to inform the Staff on the application of IFRS across different jurisdictions.²⁵

As is the case today, the Commission would retain the ultimate authority to establish financial reporting requirements in those instances in which interpretative guidance is required or appropriate for U.S. constituents, although addressing such needs through standard setting would still be the preferred approach. The Staff also could issue guidance following similar processes to those employed currently and using, for instance, a format similar to a Staff Accounting Bulletin. Under the framework, the issuance of Staff guidance should be an infrequent occurrence, and, in all instances, the Staff would make efforts to develop any incremental requirements such that they would not conflict with IFRS.

On an ongoing basis, the Staff would need to monitor international standard-setting developments to understand any implications of changes to IFRS on the Commission's existing rules, regulations, interpretations, and forms. Incorporation of IFRS and any modifications to IFRS thereafter could necessitate additions to or deletions or modifications of existing SEC guidance. For example, IFRS currently does not have requirements for oil and gas companies similar to those of the Commission.²⁶ Therefore, the Commission could conclude that these requirements remain relevant and important for U.S. investors and retain such requirements upon any incorporation of IFRS into the

²³ The Staff participates in the development of IFRS primarily through the work of IOSCO. Through membership in IOSCO's Standing Committee on Multinational Disclosure and Accounting, the Staff assists in writing IOSCO comment letters on exposure drafts of standards published by the IASB and serves as one of the IOSCO representatives on several of the IASB project working groups. As one of two IOSCO representatives, the Staff serves as a non-voting Observer to the IFRS Interpretations Committee.

²⁴ The primary purpose of the Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity, and capital formation. The Monitoring Board helps ensure the public accountability of the IFRS Foundation by monitoring and reinforcing the public interest oversight function of the IFRS Foundation, as well as by promoting the continued development of IFRS as a high-quality set of global accounting standards. Among other responsibilities, the Monitoring Board participates in the IFRS Foundation Trustee nominations process and approves Trustee nominees. The Monitoring Board also reviews the Trustee's oversight of the IASB's standard-setting process, confers with the Trustees regarding their responsibilities, and refers matters of broad public interest related to financial reporting for consideration by the IASB. The members of the Monitoring Board currently are the Emerging Markets and Technical Committees of the International Organization of Securities Commissions ("IOSCO"), the EC, the Financial Services Agency of Japan, and the SEC. The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer.

²⁵ In certain instances, the Staff currently discusses the application of IFRS by particular foreign private issuers with the issuer's home country's regulator.

²⁶ See SEC Release No. 33-8995 (Dec. 31, 2008), Modernization of Oil and Gas Reporting.

U.S. financial reporting system. Conversely, IFRS 7, *Financial Instruments Disclosures*, contains requirements for certain market risk disclosures to be included in the financial statements that could render portions of certain SEC requirements (such as certain requirements of Item 7A, *Qualitative and Quantitative Disclosures About Market Risk*, of Form 10-K) largely redundant and, therefore, subject to possible reconsideration.

Role of U.S. Constituents

To ensure that U.S. constituents have the ability to influence the IASB's standard-setting process and have their interests appropriately considered, it would be imperative for them to become engaged in the IASB's processes on active standard-setting projects, similar to their engagement currently in the FASB's processes. The FASB would perform an important role in representing U.S. interests broadly in the standard-setting process, by participating in the standard-setting effort and sharing its views with the IASB both informally and likely also through written comment letters. However, this should not discourage communications directly between the IASB and individual U.S. stakeholders. Rather, the FASB would provide feedback to the IASB that has been informed by a wide variety of constituents and, therefore, reflects a perspective that is in the general interest of all constituents, not necessarily in the interest of each constituent. The FASB would be a facilitator of effective communication between the IASB and U.S. constituents and a primary provider of the educational information for U.S. constituents with respect to the views of the IASB and conclusions reached in the standard-setting process. The role that the FASB could not, and should not, fill would be that of a single U.S. voice in global standard-setting efforts. It would be important that participants from many U.S. constituencies serve in this role.

IV. Transition Element

The framework incorporates the two most prevalent methods of IFRS incorporation—convergence and endorsement. The operating framework discussed in Part III above draws primarily from the Endorsement Approach, whereas the transition element draws primarily from the Convergence Approach. Under the framework, the FASB’s evaluation will be an important element in the transition.

Convergence, as contemplated in the framework, may differ from other notions of convergence.²⁷ Convergence under the framework would involve the full, but potentially staged or phased, replacement of existing U.S. GAAP through the incorporation of IFRS into U.S. GAAP pursuant to an orderly transition plan. Generally, U.S. GAAP convergence with IFRS is a practical possibility because of the many similarities between the objectives and principles of U.S. GAAP and IFRS. However, there are also differences that make it necessary to execute a carefully conceived implementation program potentially over a period of time. The Staff envisions that transition to IFRS by following the framework would potentially be a multi-step process, as further described below, and would be accomplished over a period of several (e.g., five to seven) years. Should the Commission decide to pursue the framework or a similar approach, a top priority for the FASB with respect to serving U.S. constituents would be to draft and execute an implementation program in consultation with the Staff.

Strategy for Transition

As noted above, transition would involve the replacement of the content of existing U.S. GAAP with the content of IFRS. Subsequent to a Commission decision to incorporate IFRS, the FASB would need to develop a transition plan in a relatively short period to allow for U.S. constituents to plan appropriately. To develop the transition plan, the FASB would evaluate IFRSs individually in order to determine how and when to incorporate the standards into U.S. GAAP during the transition period. The FASB would need to study whether the incorporation should be staged, phased, or occur all at once.

The initial incorporation could be accomplished through a transition of individual IFRSs, organized in relation to the ongoing or expected standard-setting efforts related to each standard. In this respect, the IFRSs could be organized into one of the following categories:

²⁷ Although the joint projects between the FASB and the IASB are often denominated “convergence,” those projects are different from the Convergence Approach described here. The FASB-IASB process involves movement by both standard setters toward a new, mutually-acceptable high-quality standard, while the Convergence Approach involves movement by a country toward existing IFRS.

1. IFRSs subject to MoU projects²⁸
2. IFRSs included on the IASB's current standard-setting agenda
3. All other existing IFRSs and areas not addressed by IFRSs

In developing the transition plan, one of the FASB's and Staff's highest priorities would be to identify ways in which the potential impact of transition could be minimized for U.S. constituents while still providing useful information to investors. This priority is contemplated in that the framework is built on a premise that a transition to IFRS may be most effective if it occurs over a period of time and is based on a phased transition plan at an individual standard level. In this regard, the FASB, working with the Staff, could develop a transition plan using the three categories of IFRSs above to minimize the impact of transition in two ways: first, by avoiding, whenever possible, situations in which an existing standard under IFRS is adopted by a U.S. issuer, only to be replaced by a new standard under IFRS shortly thereafter; and second, by maximizing the number of IFRSs subject to prospective application. This method of transition would provide for a lengthened overall period for transition and would incorporate provisions that may lessen the costs and burden of transition (e.g., prospective application whenever possible).

MoU Projects (Category 1)

The Boards continue to target completion of the MoU projects in 2011.²⁹ While deliberations on these projects are ongoing at the date of publication of this Staff Paper, for purposes of explaining the framework, the Staff has assumed that reasonably converged standards will be issued for each of these projects in 2011. Therefore, these projects would be incorporated into U.S. GAAP and IFRS in 2011, presumably before commencement of any U.S. transition to IFRS. Thus, these projects would be expected to have little effect on the transition plan, as both U.S. issuers and entities applying IFRS would be required to follow the effective date and transition provisions specified in each standard resulting from the MoU projects. However, despite the expectation that the finalized standards resulting from the MoU projects would already be incorporated into the respective bodies of guidance (i.e., U.S. GAAP and IFRS), implementation efforts for those standards could be significant and could coincide with elements of the transition plan. Therefore, the FASB would need to consider the timing of implementation for these projects when determining the timing of convergence of other IFRSs in the transition plan.

²⁸ The Boards have committed to completing their projects on financial instruments, revenue recognition, leases, the presentation of other comprehensive income, fair value measurement, balance sheet netting of derivative and other financial instruments, and the consolidation of investment companies in 2011. Collectively, these projects are referred to as "MoU projects."

²⁹ See "IASB and FASB report substantial progress towards completion of convergence programme," IASB Press Release (April 21, 2011). (available at <http://www.ifrs.org/News/Press+Releases/progress+report+2011.htm>).

IFRSs Subject to Standard Setting (Category 2)

In developing the transition plan and later executing that plan, the FASB would need to assess the IASB's ongoing standard-setting efforts and anticipated standard-setting projects. For all IFRSs in the "subject to standard setting" category ("category 2"), the FASB would need to evaluate the magnitude of standard setting expected in order to identify and isolate those IFRSs expected to be newly issued or modified significantly in the near term. The corresponding U.S. GAAP requirements would remain intact until the IASB issued the new or modified IFRSs. While the new or modified IFRSs are in development, the FASB would participate in the IASB's standard-setting process as described above in Part III. Once these IFRSs were finalized, the FASB would review the individual IFRSs to determine how to incorporate the standards into U.S. GAAP. The primary purposes of the FASB's analysis and evaluation would be to facilitate its incorporation of the IFRSs into U.S. GAAP, to enable it to assist in the education of U.S. constituents, and to raise awareness of potential implementation issues rather than to modify the requirements of the IFRSs upon incorporation.

The FASB would consider all elements of relevant Accounting Standards Codification ("ASC") Topics when determining how to incorporate IFRSs within category 2, including: requirements for specific types of transactions; content that relates to individual IFRSs other than that being evaluated for incorporation; illustrative examples; and industry guidance, which may illustrate application of an ASC Topic or may provide exceptions to the provisions of an ASC Topic. The FASB would need to consider whether elements of the ASC that were not replaced by the requirements of one or more IFRSs should be retained, removed, or modified. Relevant factors in this consideration may include: whether the guidance is determined to be consistent with IFRS principles, and therefore could (but not necessarily would) be retained, potentially with some modification; whether the guidance "stands alone" or refers to an ASC Topic being replaced, or other areas of the ASC; whether the guidance would be retained permanently or temporarily, pending incorporation of new or other existing IFRSs; and whether the guidance is considered to be critical for fostering consistent application of the new requirements.

The accounting for intangible assets (ASC 350, *Intangibles—Goodwill and Other*, and IAS 38, *Intangible Assets*) can be used to illustrate the potential transition strategy for IFRSs included in category 2. IAS 38 is not a project currently included on the IASB's agenda but was last revised in 2004 and, thus, could be identified as a standard in need of current standard setting. For purposes of illustration, the Staff assumes that IAS 38 is on the IASB's standard-setting agenda at the commencement of transition.

Pursuant to the transition plan, ASC 350 (or the Subtopics or components in ASC 350 that relate to the concepts addressed by IAS 38) would be retained in U.S. GAAP until the effective date of a revised standard under IFRS for intangible assets. The revised standard under IFRS would be incorporated into U.S. GAAP, and U.S. issuers would be required to apply the new requirements at the same time as other entities applying IFRS. A delay in the incorporation of IAS 38 would not be expected to have a significant effect

on comparability of accounting for intangible assets because the existing approaches under U.S. GAAP and IFRS are similar in terms of underlying principles, despite the existence of differences in the details.

Throughout the transition period, the FASB would need to reassess the IFRSs included within category 2 and modify its transition strategy in the event that a project were removed from the IASB's standard-setting agenda or if the agenda were modified in a way that would defer finalization of a standard beyond the U.S. transition period for incorporation. In either of these circumstances, the FASB would need to reassess the need to incorporate relevant existing IFRSs into the transition plan for "IFRSs not subject to standard setting" ("category 3"), as discussed further below. Potential changes in the timing of standard-setting projects emphasize the importance of maintaining flexibility in the transition plan for the duration of transition. Although the Staff expects that the FASB, in collaboration with the Staff, would need to develop a comprehensive transition plan, the plan would be subject to modification pending changes in external variables, such as delays in IASB standard setting.

IFRSs Not Subject to Standard Setting (Category 3)

Subsequent to development of the transition plan, the FASB would first assess the "static" IFRSs (i.e., those that are not the subject of MoU projects or other IASB agenda items) earliest for incorporation into U.S. GAAP because there would be no standard-setting that was ongoing or expected in the near future for these "static" IFRSs. The FASB's process for evaluating and incorporating IFRSs included in category 3 would be broadly analogous to the processes described above for IFRSs included in category 2, including the development of a transition plan in collaboration with the Staff. The FASB may determine that all of the category 3 IFRSs should be incorporated into U.S. GAAP simultaneously or staged over a period of time.

Further, the transition plan for category 3 IFRSs would allow for prospective application of new requirements whenever possible. Prospective application could be defined differently for individual IFRSs and could include any of the following application approaches: for all transactions entered into subsequent to the incorporation effective date; from the beginning of the earliest period presented in the financial statements; or in other ways not requiring full retrospective application, as determined by the FASB in its evaluation of the individual IFRSs. The method prescribed in each case would be determined after giving consideration to comparability, reliability, cost/benefit, and other relevant factors, while promoting the integrity of the requirements of the underlying IFRSs.

The accounting for property, plant, and equipment (ASC 360 and IAS 16, both titled *Property, Plant and Equipment*) can be used to illustrate the potential transition strategy for individual IFRSs not on the IASB's agenda for future standard setting. The FASB would analyze and evaluate IAS 16 to determine how to incorporate it into the ASC. IAS 16 is comparable in many aspects to ASC 360 and, thus, the FASB may determine to incorporate fully IAS 16 into the ASC. However, the FASB may find it necessary to

retain, possibly with modification, certain guidance that would supplement the provisions of IAS 16 or would address incremental accounting matters, provided the guidance was not inconsistent with IAS 16. The FASB could consider the following matters and approaches in incorporating IAS 16 into U.S. GAAP:

- IAS 16 contains the IFRS requirements for capitalizing and depreciating property, plant, and equipment. These aspects of ASC 360 could be replaced with the respective IFRS requirements.
- IAS 16 contains concepts that are not found in ASC 360, such as the “componentization” of property, plant, and equipment and the option to elect to use a revaluation model. These aspects of IAS 16 could be incorporated into ASC 360 representing new requirements for U.S. issuers to apply subsequent to the effective date of incorporating IAS 16 into U.S. GAAP.
- ASC 360 includes the impairment model for property, plant, and equipment. The equivalent model in IFRS is included in IAS 36, *Impairment of Assets*. The FASB would have various alternatives for incorporating the IFRS impairment guidance into U.S. GAAP. Such alternatives could include the following: retaining the impairment-related aspects of ASC 360 until such time that IAS 36 is incorporated into the ASC; coordinating the incorporation of IAS 36 with that of IAS 16; or other approaches that facilitate an orderly transition to the accounting for property, plant, and equipment under IFRS.
- Before incorporating the new requirements, the FASB would need to determine whether incorporating the new requirements would have implications for areas of the ASC outside of ASC 360. Any affected areas of the ASC outside of ASC 360 would need to be contemplated at the time of incorporation of IAS 16.
- There is a variety of industry and other supplemental guidance associated with ASC 360 (e.g., ASC 908-360, *Airlines*, and ASC 980-360, *Regulated Operations*). The FASB would evaluate this guidance and, as described earlier, may eliminate the guidance, or modify or retain it on a temporary or permanent basis, depending in each case on the outcome of its detailed assessment.

For U.S. issuers, one of the most significant aspects of implementing IAS 16 may be the componentization requirement. Componentization, which relates to separating the cost of a fixed asset into certain component parts for purposes of calculating depreciation expense and derecognizing the fixed asset, is not necessarily a difficult concept to understand, but may be difficult to apply if U.S. issuers were required to componentize, to a greater degree than they have done in the past, property, plant, and equipment on a retrospective basis. Retrospective application could require U.S. issuers to expend significant efforts to analyze significant numbers of recorded assets. To minimize the implementation effort, the FASB may determine that the componentization aspects of IAS 16, if not the entire standard, would be best incorporated on a prospective basis, for example, for all property, plant, and equipment acquired subsequent to the effective date of IAS 16 as incorporated into the ASC.

As highlighted by the interdependency between IAS 16 and IAS 36, incorporating IFRSs in a phased approach would often involve replacing aspects of more than one ASC Topic

because individual IFRSs and ASC Topics are not perfectly aligned in terms of the accounting addressed. If a phased approach were adopted, it would be critical for the FASB to understand the interdependencies between different IFRSs and ASC Topics and carefully manage transition where interdependencies exist.

V. Benefits and Risks

Incorporation of IFRS through the framework could advance the United States toward the broader objective of a single set of high-quality, globally accepted accounting standards, while enabling U.S. constituents to more effectively manage the costs and efforts necessary to reach that objective, through phased transition to and, in many cases, prospective application of IFRSs.

Undoubtedly, there would be advantages and disadvantages to any approach taken to incorporate IFRS, if the decision were made to do so. The Staff will continue to identify and analyze the potential benefits and risks of the framework, as compared to other possible incorporation approaches, in anticipation of the Commission evaluating whether the framework or another approach would be a suitable approach if the Commission determines to incorporate IFRS into the U.S. financial reporting system. Although not an exhaustive list, the following are potential benefits and risks of the framework that have been identified thus far:

- *Supports a flexible, tailored transition strategy*
The framework may allow for a more flexible transition strategy that could be better tailored and more responsive to the needs of U.S. constituents than other potential mechanisms for incorporation. The framework could be tailored for individual IFRSs. The FASB would evaluate each of the IFRSs individually to determine the timing and manner of transition in an effort to minimize the overall burden of transition. This approach could provide the benefit of incorporating IFRSs only when a singular transition was expected because IFRSs would be incorporated only when newly issued or when they were in a static state and not expected to be modified in the near term. In the case of newly issued IFRSs, there could be an added benefit of the new standard presumably being of higher quality than that which it replaced, which more directly contributes to the overall goal of incorporating high-quality standards into U.S. GAAP. Additionally, the framework could allow for broad U.S. constituent influence on a greater share of the IFRSs to be incorporated into U.S. GAAP, as several legacy IFRSs that are to be replaced in the near term would not be incorporated into U.S. GAAP.

The FASB would specify the manner of transition for individual IFRSs, or groups of IFRSs, with an objective of maximizing the number of IFRSs incorporated prospectively. Doing so could reduce the volume of required systems changes and the need to restate or recalculate amounts for certain standards (as illustrated in the property, plant, and equipment example above). A U.S.-specific transition strategy also would limit the need for short-term U.S.-specific amendments to existing IFRSs and additions to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to accommodate U.S.-specific circumstances.

The benefits of a tailored transition strategy would be minimized, and potentially eliminated, if the transition plan were not well-developed, comprehensive, and flexible enough to adapt to changing circumstances during transition in a

structured manner. If the transition plan were deficient in any one of these areas, there would be a risk that convergence to IFRS under the framework could be more burdensome than under other methods of incorporation. Further, a convoluted, poorly articulated, or frequently changing transition plan could add confusion to the convergence process. The potential U.S. transition plan has not been contemplated extensively to date and likely would have a relatively short development period.

Following a customized, U.S.-specific transition plan to incorporate IFRS also carries the general risks associated with first-use of any process. Although the framework attempts to leverage the lessons learned by other jurisdictions that have incorporated or intend to incorporate IFRS, a fundamentally different approach to incorporation of IFRS could limit the FASB's, SEC's, and U.S. constituents' abilities to leverage such lessons.

- *Provides for gradual implementation*
The framework could provide for gradual implementation of IFRS and thus could avoid the costs of a “big-bang” approach in which U.S. issuers would have to incorporate the entire body of IFRS all at once. The transition to IFRS under the framework would occur on a staggered basis over a number of years and be coordinated with the ongoing standard-setting activities of the IASB. This could limit the occasions in which U.S. issuers would be required to make two accounting changes in relatively quick succession, potentially causing confusion for investors and possibly causing U.S. issuers to incur incremental costs in making major systems and process changes and retraining personnel twice instead of once.

Further, the gradual transition of existing standards to IFRS could increase the opportunities for successful transition by decreasing the severity of the IFRS learning curve. A staggered transition could require U.S. issuers to implement, and investors to adapt to, fewer new standards in any given period and could allow for a more expansive educational process to develop to the benefit of all U.S. constituents. Ultimately, the measure of success of any approach to incorporation would focus on whether U.S. issuers have properly implemented IFRS during transition and whether U.S. constituents were provided meaningful and understandable financial information.

However, some U.S. issuers might contend that a gradual transition would not be in their best interest or in the interests of their investors, particularly in the absence of an option to voluntarily report under IFRS today. Through its outreach, the Staff has been informed that certain U.S. issuers may prefer date-certain, full adoption of IFRS or at least have the option to move to IFRS using a big-bang approach. In many cases, these issuers are among the largest multinational corporations with foreign subsidiaries that have already incorporated or are prepared to incorporate IFRS into their local financial reporting systems. Therefore, these issuers may have financial and human capital

resources to facilitate a big-bang incorporation of IFRS. For these issuers, the slower pace of gradual transition may be viewed as unnecessary, and any benefit diminished by the complexities of operating in an environment of change for an extended period.

Additionally, a gradual transition to IFRS could be perceived by certain constituents as evidence of a current lack of U.S. commitment to fully incorporate IFRS. A transition plan that was executed over some period and that was deliberately designed to allow for change based on unknown future circumstances could introduce elements of uncertainty into the U.S. overall commitment to transition. This uncertainty may cause certain foreign constituents to question whether the ultimate goal of IFRS incorporation would be achieved successfully in the United States despite any assurances provided by those integral to the transition plan.

A further risk associated with a gradual transition to IFRS is that such a strategy could cause confusion for U.S. constituents during the transition period. Until the date at which U.S. GAAP was fully aligned with IFRS (potentially five or more years into the future), U.S. GAAP would be an evolving set of standards that was neither U.S. GAAP as applied currently, nor IFRS as issued by the IASB. During the transition period, U.S. constituents would need to actively monitor progress on the transition plan and stay abreast of the potentially frequent changes made to U.S. GAAP. As noted previously, the measure of success of any approach to incorporation would include focus on whether U.S. constituents were provided meaningful and understandable financial information during transition. This measure of success could be impacted adversely if the pace and volume of change during transition was a source of confusion.

- *Potentially greater investor protection with FASB endorsement than direct incorporation of IFRS*
Many jurisdictions with developed economies have retained a local body that has the responsibility for incorporating IFRSs into the local financial reporting system. Although these bodies generally have an objective of incorporating IFRSs timely and without modification, many have been granted authority to amend or delay the incorporation of IFRSs for the protection of the public interest in the jurisdiction. Such a structure in the United States could be in the interest of U.S. constituents and provide a formal mechanism to address U.S.-specific issues, including U.S. investor protection, should they arise.

Under the framework, the “local body” incorporating IFRS could be the FASB. An accounting-focused organization fulfilling this role (rather than, for example, a legislative body) could represent the financial reporting interests of U.S. capital markets to the IASB. The FASB is well-positioned to ensure that U.S. constituents continue to have a voice in global standard setting.

If the threshold for modifications to incorporated standards were not set at a level that ensures such modifications were rare, there could be a risk of developing “U.S.-IFRS,” or a derivation of IFRS, that differs more than insignificantly from the body of IFRS issued by the IASB. Assuming U.S.-specific modifications were to occur, there could be increased risk of deterioration of the comparability of financial statements across jurisdictions. However, this potential would need to be balanced with the ultimate responsibility of the SEC to protect U.S. investors and the U.S. capital markets. In developing any U.S. modifications to IFRS, the FASB or SEC would evaluate the overall benefit to investors that could result from the modification.

- *Retains “U.S. GAAP” as the statutory basis of financial reporting*
Although the goal of incorporation of IFRS through the framework would be full alignment of U.S. GAAP and IFRS, such alignment would be accomplished through the incorporation of IFRSs into U.S. GAAP, thus retaining “U.S. GAAP” as the basis of financial reporting for U.S. issuers. This would be significant following a transition to IFRS because of the current prominence of U.S. GAAP references in U.S. laws, contractual documents, regulatory requirements and guidelines, and other similar documents. By retaining U.S. GAAP as the basis of financial reporting for U.S. issuers, the complexities associated with changing all of these references to U.S. GAAP would be mitigated. Despite of the benefits highlighted, it is important to note that a multitude of changes to the underlying U.S. financial reporting requirements—regardless of the ultimate title of the accounting framework—would necessitate extensive efforts during transition to understand the full impact on application of affected U.S. laws, contractual documents, regulatory requirements and guidelines, and other similar documents.

VI. Request for Comment

The Commission has yet to make a decision as to whether and, if so, how, to incorporate IFRS into the financial reporting system for U.S. issuers. This Staff Paper describes how one possible incorporation approach could be used to incorporate IFRS into the financial reporting system for U.S. issuers, if the Commission were to choose to do so. However, the Staff acknowledges that this is not the only possible approach of incorporation. Other possible methods of incorporation have been explored previously in much greater detail (e.g., providing for optional use or specifying mandatory, date-certain incorporation). Given the extensive discussion on these other alternatives and given the consideration by the Commission as to whether or when IFRS may be incorporated into the U.S. financial reporting system, the Staff is interested in constituents' views on the framework and any other possible approaches of incorporation of IFRS, including views on those approaches explored previously. Feedback can be provided through the SEC website by following the link below.³⁰ Feedback would be most helpful if received before July 31, 2011.

³⁰ http://www.sec.gov/cgi-bin/ruling-comments?ruling=4-600&rule_path=/comments/4-600&file_num=4-600&action=Show_Form&title=Commission%20Statement%20in%20Support%20of%20Convergence%20and%20Global%20Accounting%20Standards