



## IFRS in the U.S. – Current Status and Outlook

There has been little progress in recent years in the U.S. consideration of incorporating International Financial Reporting Standards (IFRS) into the financial reporting regime for domestic issuers, while IFRS continues to be adopted or permitted in additional jurisdictions around the world. Is the goal still to have a single set of globally accepted standards that are consistently applied and enforced, and if so, how might the U.S. proceed from here to achieve that objective?

### Key Points

- Public statements by the SEC and its staff continue to express an ultimate objective of achieving a single set of high-quality globally accepted accounting standards that are consistently applied and enforced.
- The SEC strategy for potentially incorporating IFRS into the U.S. outlined in 2010 depended heavily on the success of the FASB/IASB convergence agenda.<sup>1</sup> However, those efforts are coming to an end, and convergence has fallen short of the objectives originally outlined by the Boards.<sup>2</sup>

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### KPMG Observations

Although we continue to support efforts to move toward more comparable global accounting standards with an ultimate objective of a single set of high-quality globally accepted accounting standards that are consistently applied and enforced around the world, we recognize that objective likely will not be achieved any time soon. With the lack of convergence in some of the Boards' joint projects, we believe it is necessary for the SEC to develop a new plan and timeline for working toward more comparable global accounting standards. We also recognize that further efforts beyond standard setting will be required to address the need for consistent application and enforcement of the standards around the world.

<sup>1</sup> SEC Office of the Chief Accountant, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, February 24, 2010, available at [www.sec.gov/spotlight/globalaccountingstandards](http://www.sec.gov/spotlight/globalaccountingstandards).

<sup>2</sup> See, for example, A Roadmap for Convergence between IFRSs and US GAAP – 2006-2008: Memorandum of Understanding between the FASB and the IASB, February 27, 2006; Completing the February 2006 Memorandum of Understanding: A Progress Report and Timetable for Completion, September 2008; and FASB and IASB Reaffirm Commitment to Memorandum of Understanding: a Joint Statement of the FASB and IASB, November 5, 2009; all available at [www.fasb.org](http://www.fasb.org).



Public statements by the SEC and its staff continue to express an ultimate objective of achieving a single set of high-quality globally accepted accounting standards that are consistently applied and enforced.

## IFRS in the U.S.

### Background and Past Developments

The SEC has made public statements supporting an objective of a single set of globally accepted high-quality accounting standards for many years.<sup>3</sup> Toward that end, in August 2007 the SEC issued a Concept Release to gauge the public's interest in allowing U.S. domestic issuers to prepare financial statements using IFRS.<sup>4</sup> With the issuance of a Final Rule in December 2007, the SEC began permitting foreign private issuers to file financial statements using IFRS as issued by the IASB without reconciling to U.S. GAAP.<sup>5</sup> This marked the first acceptance of another financial reporting regime in filings with the SEC and opened the door to approximately 500 foreign private issuers that currently access the regulated U.S. capital markets on the basis of IFRS financial information.

In November 2008, the SEC issued its proposed roadmap for IFRS adoption by U.S. domestic issuers, which contemplated a mandatory move to IFRS by U.S. domestic issuers by 2016.<sup>6</sup> In response, the Financial Accounting Foundation (FAF) and FASB restated their support of an ultimate goal of a single set of globally accepted high-quality accounting standards.<sup>7</sup> In February 2010, the SEC reaffirmed its continuing support for a single set of high-quality globally accepted accounting standards and noted that IFRS is best positioned to serve in that role.<sup>8</sup> However, the SEC approach had moved from adoption of IFRS to incorporation of IFRS through the convergence of U.S. GAAP and IFRS. In July 2012, the SEC staff summarized its efforts and findings but, in part because the Boards' convergence projects were not yet completed, did not provide any conclusions or recommendations for actions by the Commission.<sup>9</sup>

<sup>3</sup> See, for example, SEC Release No. 33-7801, International Accounting Standards, February 16, 2000, available at [www.sec.gov](http://www.sec.gov).

<sup>4</sup> SEC Release No. 33-8831, Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards, August 7, 2007, available at [www.sec.gov](http://www.sec.gov).

<sup>5</sup> SEC Release No. 33-8879; Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP, December 21, 2007, available at [www.sec.gov](http://www.sec.gov).

<sup>6</sup> SEC Release No. 33-8982, Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers, November 14, 2008, available at [www.sec.gov](http://www.sec.gov).

<sup>7</sup> Financial Accounting Foundation Comment Letter on SEC Release No. 33-8982, March 11, 2009, available at [www.fasb.org](http://www.fasb.org).

<sup>8</sup> SEC Release No. 33-9109, Commission Statement in Support of Convergence and Global Accounting Standards, February 24, 2010, available at [www.sec.gov](http://www.sec.gov).

<sup>9</sup> SEC Final Staff Report, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, July 13, 2012, available at [www.sec.gov](http://www.sec.gov). Key findings identified in that report included an acknowledgment that the standards issued by the IASB are perceived to be high-quality but there are areas not addressed by IFRS that may be important to the U.S. marketplace. The report noted further that global application of IFRS and cooperation among regulators could be improved to reduce diverse practices. For more information see Defining Issues No. 12-30, SEC Staff Issues Final Report on IFRS Work Plan, available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com).

**August 2007**

SEC Concept Release on IFRS

**December 2007**

Foreign private issuers able to use IFRS with no reconciliation to U.S. GAAP

**November 2008**

SEC proposed roadmap for mandatory adoption of IFRS by U.S. domestic issuers

**July 2012**

SEC Final Staff Report containing no recommendation on U.S. domestic issuers' use of IFRS

**May 2014**

SEC Chair says it is a priority for SEC to make a further statement on IFRS

**December 2014**

SEC Chief Accountant suggests alternative to allow IFRS-based supplemental information

**Current Thinking**

The SEC's Strategic Plan for Fiscal Years 2014-2018 states: "The SEC will continue to promote the establishment of high-quality accounting standards in order to meet the needs of investors. Due to the increasingly global nature of capital markets, the agency will work to promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable."<sup>10</sup>

The SEC Chair, in a May 2014 speech, stated that it is a priority for the Commission to position itself to make a further statement on the incorporation of IFRS in the U.S. for domestic issuers.<sup>11</sup>

In December 2014, the SEC Chief Accountant noted that continued uncertainty around IFRS in the U.S. would result in uneasiness for investors across the globe and that it would be a priority for the staff to bring a recommendation to the Commission.<sup>12</sup> He noted that many U.S. constituents are not supportive of full adoption of IFRS for a variety of reasons, including legal issues and cost-benefit concerns. He suggested as one new possible alternative a revision to SEC rules to allow U.S. domestic issuers to provide IFRS-based financial information on a supplementary basis in addition to the U.S. GAAP information in SEC filings. Currently, regulatory constraints may dissuade some issuers from providing this information because under existing SEC rules IFRS-based information is considered a non-GAAP financial measure if reported by a U.S. domestic issuer.<sup>13</sup> As a consequence, assuming it is permissible for a domestic registrant to provide IFRS-based information, a reconciliation of the supplementary information presented outside the financial statements by a U.S. domestic registrant to the most comparable U.S. GAAP information is required. This is not required for foreign private issuers that file IFRS financial statements with the SEC.

If SEC rules were revised such that IFRS-based information were not deemed a non-GAAP measure, a U.S. domestic issuer would be free to determine whether IFRS-based information would be beneficial to its investors. If so, the issuer could report that information as incremental and supplemental information in its SEC filing. At this point, it is unclear whether any incremental IFRS-based financial information would have to be audited or would be subject to any additional presentation and disclosure requirements.

<sup>10</sup> SEC Strategic Plan Fiscal Years 2014-2018, pages 13-14, available at [www.sec.gov](http://www.sec.gov).

<sup>11</sup> SEC Chair Mary Jo White, Remarks at the Financial Accounting Foundation Trustees Dinner, May 20, 2014, available at [www.sec.gov](http://www.sec.gov).

<sup>12</sup> James Schnurr, SEC Chief Accountant, Remarks before the 2014 AICPA Conference on Current SEC and PCAOB Developments, December 8, 2014, available at [www.sec.gov](http://www.sec.gov).

<sup>13</sup> SEC Regulation S-K Item 10(e) and SEC Regulation G, available at [www.sec.gov](http://www.sec.gov).

An SEC Commissioner, in a March 2015 speech, acknowledged the appeal of a single set of globally accepted high-quality accounting standards, but was not convinced of a need to abandon U.S. GAAP in favor of IFRS. She proposed recasting the debate as one about the kind of accounting regime that will be needed in the future, rather than focusing on the merits of U.S. GAAP versus IFRS.<sup>14</sup> Additionally, the Chief Accountant recently noted that constituents continue to support the objective of a single set of high-quality globally accepted accounting standards and that, in the near term, the FASB and IASB should continue to work together to reduce the differences between IFRS and U.S. GAAP.<sup>15</sup>

### KPMG Observations

Constituents' views on the new alternative for voluntary supplementary IFRS-based information may be influenced by how they perceive it relates to the SEC's plans to work toward an ultimate objective of a single set of high-quality globally accepted accounting standards that are consistently applied and enforced. That is, constituents may want to evaluate the new alternative in the context of how it might be a step in the longer-term journey to more comparable global standards.

We believe that it would help constituents provide feedback on the new alternative if the SEC also articulated an updated broader plan for its long-term ultimate objective, including how the step to allow presentation of IFRS-based supplementary information in addition to required U.S. GAAP information fits with further steps in the overall effort toward a single set of high-quality global standards.

Currently, it appears that neither mandatory adoption nor a broad option for U.S. domestic issuers to file IFRS financial information in lieu of U.S. GAAP has broad support among U.S. constituents. We believe a broad option for U.S. domestic issuers to switch to IFRS would not be appropriate unless there is a specific timeline for moving all U.S. domestic issuers to IFRS, which we would not expect to occur in the near term. This is because having a significant number of U.S. domestic issuers applying IFRS, while others are still applying U.S. GAAP, could significantly decrease comparability among U.S. domestic issuers for an extended period of time.

However, a narrow option to file IFRS financial information in lieu of U.S. GAAP for a small subset of domestic issuers might be worthy of further consideration. Potential candidates for such a narrow option could be U.S. subsidiaries having a parent in an IFRS reporting jurisdiction, entities in a peer group with predominantly international competitors that access the global capital markets, or issuers which meet the definition of a domestic issuer but which have their domicile outside the U.S.

<sup>14</sup> SEC Commissioner Kara M. Stein, Remarks at Brooklyn Law School International Business Law Breakfast Roundtable, March 26, 2015, available at [www.sec.gov](http://www.sec.gov).

<sup>15</sup> James Schnurr, SEC Chief Accountant, Remarks at the 34<sup>th</sup> Annual SEC and Financial Reporting Institute Conference, June 5, 2015, available at [www.sec.gov](http://www.sec.gov).



On balance, we believe it is fair to characterize the global use of IFRS and U.S. GAAP measured on a market capitalization basis as currently being approximately equal.

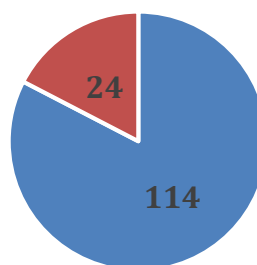
## IFRS around the World

### Moving Toward a Global Standard

While the U.S. expressed general support for a single global set of high-quality accounting standards and has participated in a number of convergence projects, the use of IFRS has continued to expand around the world.

One way to measure the extent that IFRS is used around the world is by counting the countries that require or permit the use of IFRS for domestic listed companies. According to the IASB, out of 138 jurisdictions surveyed, 114 require IFRS for all or most domestic publicly accountable entities – e.g. listed companies and financial institutions.<sup>16</sup> Of the 24 that do not require the use of IFRS, 12 permit IFRS to be used by at least some listed domestic companies, including India, Japan, and Switzerland. Only 10 countries surveyed exclusively require the use of national or regional standards, including mainland China and the U.S. for domestic issuers; however, many large Chinese companies use IFRS for listings in Hong Kong. By way of comparison, U.S. GAAP is required to be used by listed domestic companies in the U.S., and it is permitted to be used by listed domestic companies by a few other countries – e.g. Japan, Switzerland, and Canada (for those that also are SEC registrants).

Status of IFRS Adoption by Jurisdiction



- Requires IFRS for all or most domestic publicly accountable entities
- Does not require IFRS

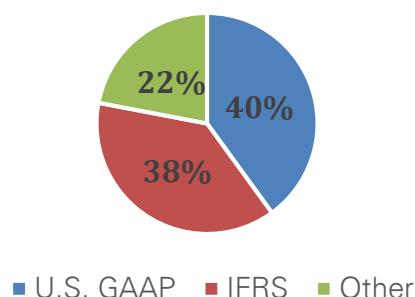
Another way to measure the extent that IFRS is used around the world is in terms of the equity market capitalization of listed companies. According to data from the World Federation of Exchanges, the total global equity market capitalization of listed companies was approximately \$68 trillion as of January 2015.<sup>17</sup> Approximately 38 percent of that consists of the market capitalization of U.S. domestic listed entities that are required to use U.S. GAAP. By our estimate, the U.S. GAAP share of global market capitalization increases to approximately 40 percent when including non-U.S. entities that use U.S. GAAP in countries such as Japan, Switzerland, and Canada.

<sup>16</sup> IASB, Analysis of the IFRS Jurisdiction Profiles, available at [www.ifrs.org](http://www.ifrs.org).

<sup>17</sup> World Federation of Exchanges Statistics, available at [www.world-exchanges.org/statistics](http://www.world-exchanges.org/statistics).

In comparison, we estimate that IFRS has a 38 percent share of global market capitalization, while other GAAPs – e.g., Japanese GAAP, Chinese GAAP, Indian GAAP, and Swiss GAAP – make up most of the remaining 22 percent. These shares regularly fluctuate as individual countries' share of global market capitalization as well as currency exchange rates change. In addition, we observe countries continue to change the accounting standards that are required or permitted to be used in their jurisdictions, as well as entities in jurisdictions that permit alternatives making voluntary decisions to change the accounting standards they use. On balance, we believe it is fair to characterize the global use of IFRS and U.S. GAAP measured on a market capitalization basis as currently being approximately equal.

Share of Global Equity Market Capitalization (Est.)



Looking ahead, we anticipate continued growth in the use of IFRS around the world. Singapore and Thailand are both moving toward full adoption of IFRS for listed companies, while Indonesia is converging its national standards with IFRS. Japan and India now permit almost all listed entities to use IFRS. In Japan, 85 listed companies, with a market capitalization of approximately 20 percent of the Tokyo Stock Exchange, have either started to use IFRS or have publicly announced their intention to use IFRS. In China, although IFRS is not required or permitted for domestic companies within mainland China, as of June 30, 2014, 90 Chinese companies with a market capitalization of approximately \$841 billion use IFRS for their public listings in Hong Kong. In addition, there are also a number of Chinese companies that use IFRS for the purpose of trading in the United States and Europe.<sup>18</sup>

### KPMG Observations

As shown by the number of jurisdictions that now require or allow the use of IFRS, it appears that the world has come a long way on its journey toward a single set of global accounting standards. Just 15 years ago most countries had their own national accounting standards that were used for listed companies, but now a significant majority use IFRS. On balance, in the last 15 years the financial reporting world has moved from having dozens of GAAPs in use to largely two GAAPs with significant use. While that is still short of the ultimate objective, this does represent progress toward that

<sup>18</sup> IFRS Jurisdiction Profiles, available at [www.ifrs.org](http://www.ifrs.org).



objective and improvement in the comparability of information available to investors.

However, as indicated by the market capitalization data presented above, continuing and new differences between U.S. GAAP and IFRS represent a significant obstacle to achieving that ultimate objective.

## Global Cooperation and Input

While much of the FASB and IASB efforts over the past decade have been guided by convergence between U.S. GAAP and IFRS, those efforts are coming to an end.<sup>19</sup> In the IASB's view, it has moved from a period of bilateral convergence with the FASB to a more inclusive, multilateral approach to standard-setting.<sup>20</sup> This involves active engagement with a broader range of national and regional standard-setting bodies, including the FASB. This may be best illustrated by the formation of the Accounting Standards Advisory Forum (ASAF) two years ago, which has representation from 12 national and regional accounting standards organizations, including the FASB. The IASB intends the ASAF to be the primary means by which it interacts with national standard setters on issues under its consideration.

## KPMG Observations

One question for the United States is how it will interact with international standard setting in the post-bilateral convergence era. According to the FASB's strategic plan, the FASB intends to actively participate in the development of IFRS and enhance its relationships with other national standard setters.<sup>21</sup> The FASB is a member of the ASAF, but it is not clear what level of input into the IASB's deliberative process that forum will provide. Over the past 18 months the FASB has worked to establish bilateral and multilateral arrangements with national standard setters, but it is unclear how those efforts would advance the progress toward an ultimate objective of a single set of global accounting standards. In addition, the FASB's strategic plan notes that in developing its standards, the FASB will first consider the best interests of those who provide capital to companies both in the U.S. and other markets that use or reference U.S. GAAP.

<sup>19</sup> Comparability in International Accounting Standards—An Overview, available at [www.fasb.org](http://www.fasb.org).

<sup>20</sup> See, for example, speeches by Ian Mackintosh, Vice-Chairman, IASB, The Maturing of IFRS, November 10, 2014, and Turning Back the Clock?, June 2014, both available at [www.ifrs.org](http://www.ifrs.org).

<sup>21</sup> FAF/FASB/GASB Strategic Plan (April 2015), available at [www.accountingfoundation.org](http://www.accountingfoundation.org).

## Outlook and Next Steps

### Completion of Convergence Projects

The next 12-months should bring with it the completion of the remaining convergence projects between the FASB and IASB. Recently, the Boards reached different decisions about potential amendments to provide clarifications and interpretative guidance to their respective revenue recognition standards.<sup>22</sup> For the leases project, both Boards have agreed to recognize assets and liabilities for most leases on the statement of financial position, but beyond that the overall accounting for leases likely will be more diverged than under existing U.S. GAAP and IFRS. The same is true for accounting for financial instruments. The Boards parallel insurance projects have not led to convergence either.

### KPMG Observations

The Boards' efforts at convergence over the past decade have resulted in a mix of successes and failures. The standards for fair value measurements, business combinations, and revenue recognition are substantially converged. However, the accounting for leases and financial instruments has diverged. Other projects, such as distinguishing between debt and equity, financial statement presentation, and conceptual framework improvements, were dropped from the convergence agenda.

Based on the Board's current decision-making processes and priorities, it is unlikely that convergence efforts alone would achieve a single global set of high-quality accounting standards. In order to achieve that objective, we believe a new strategy would need to be developed and put into action. Under a new strategy, it may be necessary for the FASB to place a higher priority on convergence while it begins working independently from and more cooperatively (rather than jointly) with the IASB. However, it is first necessary to decide whether the previously expressed objective of a single set of global standards continues to be the objective.

### Future SEC Rulemaking Proposals

In the second half of 2015, the SEC may issue a proposal to formally solicit feedback on potential rulemaking under which U.S. domestic issuers could provide supplemental IFRS-based financial information in addition to the U.S. GAAP information in SEC filings. This proposal would allow for broad stakeholder outreach both through the formal comment letter process and other means including, potentially, a series of public roundtables.

<sup>22</sup> See Defining Issues Nos. 15-5, FASB and IASB Propose Clarifications to Revenue Standard, and 15-11, FASB and IASB to Propose Additional Revenue Clarifications, both available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com).



### KPMG Observations

We believe that any proposal would need to clearly articulate the SEC's revised strategy for working toward the ultimate objective, or a description of the current objective if it has changed. Voluntary permission to provide supplemental IFRS-based information is only a step on that ongoing journey. Any proposal would need to be evaluated on a number of dimensions, including the level of anticipated adopters over time, how success at achieving a step on the journey toward the ultimate objective will be evaluated, assurance implications, legal and regulatory issues (e.g., banking, insurance, rate-regulated reporting), and, most importantly, the information needs of users.

Given the time needed to develop a proposal and consider the input received before developing a final rule, in addition to the SEC's other priorities, it may be unlikely that a final decision on voluntary supplemental IFRS-based information or any other action regarding further incorporation of IFRS into the U.S. financial reporting regime will be made in 2015.

### IFRS Foundation Monitoring Board Membership Reassessment

The IFRS Foundation Monitoring Board was created in January 2009 with the aim of providing a formal link between the IFRS Foundation Trustees and public authorities in order to enhance its public accountability.<sup>23</sup> Its main responsibilities are to ensure that the Trustees continue to discharge their duties, as well as approving the appointment or reappointment of Trustees, who appoint the individual members of the IASB. The SEC is a current member of the Monitoring Board.

Membership on the Monitoring Board is subject to an evaluation and assessment of its members every three years against specified criteria for membership, including:<sup>24</sup>

- A clear commitment to moving toward application of IFRSs in its domestic market and promoting global acceptance of a single set of high-quality international accounting standards as the final goal;
- Financial contributions to the setting of IFRSs on a continuing basis; and
- The relevant national or regional standard-setting body is committed to actively contributing to the development of IFRSs.

The next membership assessment for the Monitoring Board is scheduled for 2016.

<sup>23</sup> Information about the composition of the Monitoring Board of the IFRS Foundation is available at [www.iosco.org](http://www.iosco.org).

<sup>24</sup> Monitoring Board Charter, available at [www.iosco.org](http://www.iosco.org).

### KPMG Observations

It remains to be seen how the SEC will be evaluated against the membership criteria. We support the development of a realistic plan that keeps the U.S. actively engaged in IFRS activities and moving toward the achievement of the ultimate objective.

However, we recognize that confirmation of an objective regarding global accounting standards, development of a plan for working toward that objective, and the efforts needed to put the plan into action and achieve the objective will be a long, extended process. In addition to addressing accounting standards, efforts to achieve consistent application and enforcement should also be considered.

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