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SEC May Consider Supplementary Reporting under IFRS in 2016

Nearly six years after the SEC last made a formal statement about achieving a single set of high-quality, global accounting standards, it will consider a staff recommendation about how to further incorporate IFRS into the U.S. financial reporting system.¹ This may lead to a proposed rule in the first half of 2016.

Key Points

- U.S. domestic issuers may be given the option to provide supplementary IFRS-based financial information as part of their U.S. GAAP financial information filed with the SEC.
- Mandatory adoption, or a broad-based option for U.S. domestic issuers to adopt IFRS as their financial reporting framework, appears to have little support in the United States.
- The SEC continues to support the ultimate objective of a single set of high-quality, globally accepted standards, and is encouraging the FASB and IASB to continue to collaborate in their future standard-setting activities.

KPMG Observations

Constituents' views about whether U.S. domestic issuers should be able to provide voluntary supplementary, IFRS-based information may be influenced by whether they believe that this might be a significant step in the longer-term journey to achieve more comparable global standards.²

We continue to support efforts to move toward more comparable global accounting standards with an ultimate objective of achieving a single set of high-quality, globally accepted accounting standards that are consistently applied and enforced. However, we recognize it will take time before that objective can be achieved.

¹ SEC Release No. 33-9109, Commission Statement in Support of Convergence and Global Accounting Standards, February 24, 2010, available at www.sec.gov.

² For more information, see KPMG's Defining Issues No. 15-35, IFRS in the U.S. – Current Status and Outlook, available at www.kpmg-institutes.com.

February 2010

SEC Statement in Support of Convergence and Global Accounting Standards and issuance of SEC Staff Work Plan on evaluating IFRS for U.S. domestic issuers

July 2012

SEC Final Staff Report on issues and challenges remaining before a further recommendation could be made to the Commission on allowing U.S. domestic issuers to use IFRS

December 2014

SEC Chief Accountant suggests an alternative to allow IFRS-based supplementary information to be provided by U.S. domestic issuers

December 2015

SEC Chair states that supplementary IFRS-based financial information has the potential to be a useful next step and will be considered by the Commission

Recent SEC Statements on IFRS

The SEC's current strategic plan states that it will consider whether a single set of global accounting standards is possible: "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."³

In December 2014, the SEC Chief Accountant said that continued uncertainty about whether IFRS will be further incorporated into the U.S. financial reporting system creates uneasiness for global investors.⁴ He said that many U.S. constituents do not support fully adopting IFRS for many reasons, including legal and cost-benefit concerns. He suggested that one possible next step would be revising SEC non-GAAP rules to allow U.S. domestic issuers to provide IFRS-based financial information in addition to the U.S. GAAP information included in SEC filings.⁵ If U.S. domestic issuers decided that IFRS-based information would be beneficial to their investors, they could provide this as a supplement to their SEC filings without having to reconcile it to U.S. GAAP.

"This proposal has the potential to be a useful next step," said SEC Chair Mary Jo White in a recent speech. She also reiterated her view that it is important for the Commission to speak again about its general views on the goal of a single set of high-quality, global accounting standards and specifically about the possibility of permitting U.S. domestic issuers to provide IFRS-based information on a supplementary basis.⁶ SEC Commissioner Piwowar expressed similar views in a recent speech. He believes that a potential requirement for IFRS financial reporting for U.S. domestic issuers should be investor-driven, and that allowing U.S. domestic issuers to provide IFRS-based information on a voluntary and supplementary basis "is worthy of serious consideration."⁷

The SEC staff continues to discuss its recommendations for a proposed rule with the Commission. The SEC also is urging the FASB and IASB and their respective oversight organizations—the Trustees of the Financial Accounting Foundation and IFRS Foundation—to continue to work together to further converge U.S. GAAP and IFRS.⁸

³ SEC Strategic Plan: Fiscal Years 2014-2018, page 8, available at www.sec.gov.

⁴ James V. Schnurr, SEC Chief Accountant, Remarks before the 2014 AICPA Conference on Current SEC and PCAOB Developments, December 8, 2014, available at www.sec.gov.

⁵ SEC Regulation S-K Item 10(e) and SEC Regulation G, both available at www.sec.gov.

⁶ Mary Jo White, SEC Chair, Keynote Address at the 2015 AICPA National Conference: "Maintaining High-Quality, Reliable Financial Reporting: A Shared and Weighty Responsibility," December 9, 2015, available at www.sec.gov.

⁷ Michael S. Piwowar, SEC Commissioner, Remarks at the 34th Annual Current Financial Reporting Issues Conference, November 16, 2015, available at www.sec.gov.

⁸ James V. Schnurr, SEC Chief Accountant, Remarks Before the 2015 AICPA National Conference on Current SEC and PCAOB Developments, December 9, 2015, available at www.sec.gov.

KPMG Observations

We agree with the SEC Chair's recent message, and believe it is time for the Commission to consider further action in the journey toward the goal of a single set of high-quality, global accounting standards. This action could include as a next step giving U.S. domestic issuers the option to provide supplementary IFRS-based financial information in their SEC filings.

Currently two SEC Commissioner nominees are awaiting Senate confirmation. That process could affect the timing of rule-making. We believe that for the SEC to achieve the requisite rulemaking in 2016, a proposed rule would need to be issued in the first half of 2016.

Next Steps

The SEC may issue a proposed rule in the first half of 2016 to formally solicit feedback. This proposal would let stakeholders provide their opinions through the formal comment letter process and potentially other channels such as public roundtables.

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