

## **SEC Proposes Roadmap For Potential Transition From U.S. GAAP to IFRS As a Basis for U.S. Issuers' Financial Reporting**

On August 27, 2008, the Securities and Exchange Commission ("SEC") voted to publish for public comment a proposed Roadmap that may ultimately result in U.S. issuers' use of International Financial Reporting Standards ("IFRS") beginning in 2014. U.S. issuers currently prepare their financial statements in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The proposed Roadmap provides a timetable for the potential transition from U.S. GAAP to IFRS for purposes of financial reporting.

The impetus for the Roadmap stems from the SEC's recognition that, given the increasing integration of the world's capital markets, the establishment of a uniform set of high quality accounting standards is crucial for enabling investors to compare financial information and make well-informed investment decisions. The growing global acceptance of IFRS, as well as U.S. investors' increasing ownership of securities issued by foreign companies using IFRS, triggered the SEC's proposal. IFRS is currently required or permitted in over 100 countries, including all of Europe.

Under the proposed Roadmap, the SEC will decide in 2011 whether to transition to mandatory use of IFRS for all U.S. issuers beginning in 2014. In order to assist the SEC in its ultimate determination of whether adopting IFRS is in the public interest and would benefit investors, the Roadmap outlines a series of important milestones to be achieved. These milestones pertain to:

- improvements in accounting standards
- the accountability and funding of the International Accounting Standards Committee Foundation<sup>1</sup>
- improvement in the ability to use interactive data for IFRS reporting
- education and training of investors, accountants, auditors and others in the U.S. regarding IFRS
- the timing of the SEC's future rulemaking
- the implementation of the mandatory use of IFRS, including considerations regarding whether to stage or sequence the implementation among companies, based on their size, from 2014 to 2016
- the limited early use of IFRS, as discussed in further detail below

Notably, the Roadmap proposes to permit a small number of eligible U.S. issuers to use IFRS before it becomes mandatory, in order to detect those categories of U.S. issuers for whom the use of IFRS is most likely to facilitate comparability with global competitors. A U.S. issuer is eligible to elect IFRS (beginning with reports filed for fiscal periods ending on or after December 15, 2009) if: (1) it is one of the 20 largest public companies in its industry, worldwide; and (2) the 20 largest public companies in that industry, as measured by market capitalization on a global basis, use IFRS more often than any other basis of financial reporting. The SEC estimates that around 110 U.S. companies in 34 industries will be eligible for the early use of IFRS.

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<sup>1</sup> The International Accounting Standards Committee (IASC) Foundation is an independent not-for-profit, private sector organization. The Foundation is committed to developing, in the public interest and through its standard-setting body, the [International Accounting Standards Board \(IASB\)](#), a single set of high quality, international financial reporting standards for general purpose financial statements.

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The SEC's proposal would continue to require issuers to provide three years of audited financial statements whether or not they elect or are required to use IFRS. With respect to early users of IFRS, the proposed Roadmap offers two alternatives under which an issuer would provide U.S. GAAP-based information. The first alternative suggests compliance with IFRS 1, which requires a one-time reconciliation from U.S. GAAP to IFRS covering the year of transition, which would appear as a note to the audited financial statements. The second alternative requires the issuer to provide, on an on-going basis in its Form 10-K annual reports, an unaudited reconciliation from IFRS to U.S. GAAP for the three years of IFRS financial statements included in the Form 10-K.

The SEC is seeking public comment on its proposal, to be received no later than 60 days following its publication in the Federal Register. The full text of the proposed Roadmap will be posted on the SEC's website in the near future.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Charles A. Gilman at 212.701.3403 or [cgilman@cahill.com](mailto:cgilman@cahill.com); Jon Mark at 212.701.3100 or [jmark@cahill.com](mailto:jmark@cahill.com); John Schuster at 212.701.3323 or [jschuster@cahill.com](mailto:jschuster@cahill.com); or Yafit Cohn at 212.701.3089 or [ycohn@cahill.com](mailto:ycohn@cahill.com).

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