

FASB and IASB Issue Progress Report Detailing Modified Convergence Strategy

Since 2002, the U.S. Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) (collectively, the “Boards”) have recognized the need for the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting.¹ In 2006, the Boards entered into a Memorandum of Understanding (“MoU”), *A Roadmap for Convergence between IFRSs and US GAAP—2006-2008*.² This MoU, as updated in 2008, set forth a list of joint projects on which the Boards sought to achieve accounting standard convergence.³ In November 2009, the Boards issued a Joint Statement (“Statement”) which affirmed June 2011 as the target date for completing the major convergence projects identified within the MoU.⁴ However, stakeholders expressed concern about their ability to consider and provide high quality input on the large number of exposure drafts for proposed changes in accounting standards which were planned for publication in the second quarter of 2010 in order to meet the aggressive timeline. Because the Boards recognized the impact which effective stakeholder participation can have on the quality of the final standards, they decided to modify their convergence strategy.

On June 24, 2010, the Boards issued a progress report to the Group of 20 Nations which provides details of their modified strategy to converge U.S. Generally Accepted Accounting Principles (“GAAP”) and the International Financial Reporting Standards (“IFRS”).⁵ This modified strategy addresses concerns expressed by stakeholders and entails:

- A new timeline prioritizing the major convergence projects discussed in the 2006 MoU, as updated in 2008, retaining the target completion date of June 2011 or earlier for those projects the Boards consider most urgent, while extending the target completion date to the end of 2011 or later for projects which are less urgent or for which further research and analysis is necessary.⁶

¹ See, e.g., The Norwalk Agreement, available at <http://www.fasb.org/news/memorandum.pdf>.

² See <http://www.iasb.org/NR/rdonlyres/874B63FB-56DB-4B78-B7AF-49BBA18C98D9/0/MoU.pdf>

³ See Completing the February 2006 Memorandum of Understanding: A progress report and timetable for completion, available at http://www.fasb.org/intl/MOU_09-11-08.pdf.

⁴ See FASB and IASB Reaffirm Commitment to Memorandum of Understanding, available at http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156535882.

⁵ See Progress Report on Commitment to convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards, available at http://www.iasb.org/NR/rdonlyres/A8B4D5B7-E776-4D80-BA54-17563F1E2297/0/MoU_Status_Update_24June_2010_FINAL.pdf.

⁶ The projects for which the target completion dates of the final standards are later than June 2011 include those related to financial statement presentation, financial instruments with characteristics of equity, consolidations (in relation to non-investment entities) and derecognition (in areas other than disclosure).

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The priority projects, for which the target completion dates remain June 2011 or earlier, include:

- the joint projects on financial instruments, revenue recognition, leases, the presentation of other comprehensive income, and fair value measurement.
- with respect to the IASB, consolidations (particularly in relation to structured entities), insurance contracts, and improved disclosures about derecognized assets and other off-balance sheet risks (to align them with GAAP requirements).

The Boards also decided to issue separate exposure drafts of proposals to address differences in their standards for balance sheet netting of derivative contracts and other financial instruments that can cause significant differences in reporting by financial institutions.

- Limiting the number of significant or complex exposure drafts issued in any one quarter to four.
- The issuance of a separate consultation document seeking stakeholder input about effective dates and transition methods for the major MoU projects.

These modifications are intended to increase stakeholder outreach and narrow the scope and slow the pace of development with respect to certain standards. Despite this, however, some analysts caution that an even more measured pace is necessary in order to ensure issuance of high quality standards, given the number and complexity of the projects.

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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; Jon Mark at 212.701.3100 or jmark@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com; or Abigail Darwin at 212.701.3240 or adarwin@cahill.com.

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