



# IFRS and U.S. GAAP Convergence – Are You Prepared?

## POWERFUL INSIGHTS

The Securities and Exchange Commission (SEC) reaffirmed its support for the convergence of U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) in its “Commission Statement in Support of Convergence and Global Accounting Standards” in February 2010.<sup>1</sup> The SEC also reaffirmed it continues to believe that a single set of high-quality, globally accepted accounting standards will benefit U.S. investors and that this goal is consistent with its mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation.

The SEC will continue to evaluate, through 2011, whether to incorporate IFRS into the financial reporting system for U.S. issuers; if it does proceed, the first time U.S. firms would report using IFRS would be no earlier than 2015. Meanwhile, businesses should count on aggressive IFRS and U.S. GAAP convergence in the next few quarters and begin plans for the transition. The SEC views convergence as a way to help narrow and reduce the differences between these sets of standards over time. The SEC also notes the ongoing convergence project by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) will play a key role in its determination whether to move forward with U.S. adoption of IFRS.

### Issue

IFRS are principles-based financial reporting requirements adhered to by more and more countries worldwide. Canada, Japan, India and Mexico are among the countries currently converting to the standards. The SEC has long supported global accounting standardization through convergence, citing benefits such as increased competition among exchanges, better global resource allocation and capital formation, lower cost of capital, and a higher global economic growth rate.<sup>2</sup>

<sup>1</sup> “Commission Statement in Support of Convergence and Global Accounting Standards,” February 24, 2010, Securities and Exchange Commission, <http://www.sec.gov/rules/other/2010/33-9109.pdf>.

<sup>2</sup> “Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System,” Securities and Exchange Commission, July 25, 2003, <http://www.sec.gov/news/studies/principlesbasedstand.htm>.

In 2002, FASB and IASB began work on a joint IFRS and U.S. GAAP convergence project, with the goal of aligning the conceptual frameworks of, and removing differences between, the two sets of standards.<sup>3</sup> Several of their convergence projects are scheduled for completion by the second quarter of 2011, including those relating to:

- Financial instruments
- Consolidations
- Derecognition
- Fair value measurement
- Revenue recognition
- Leases
- Financial instruments with the characteristics of equity
- Financial statement presentation

### Challenges and Opportunities

The SEC acknowledges that a U.S. transition to IFRS requires “careful consideration and deliberation.” If, as expected, the SEC decides to move forward with IFRS convergence, it would have far-reaching business consequences for companies, affecting not only their external financial reporting, but also:

- Business strategies and policies
- Business processes
- People and resources
- Internal reporting
- Methodologies
- Financial reporting systems and underlying data

Whether the SEC formally adopts IFRS or convergence runs its course, most organizations can expect major “change” ➤

<sup>3</sup> Memorandum of Understanding (“The Norwalk Agreement”), Financial Accounting Standards Board and International Accounting Standards Board, 2002, <http://www.fasb.org/news/memorandum.pdf>.

events.” How disruptive it will be depends on the nature, size and geographical spread of the company’s activities. Companies that know they will need to respond to IFRS and U.S. GAAP convergence should take steps now to prepare.

### Our Point of View

Organizations can learn much from companies that have converted or are in the process of converting to IFRS. A key lesson: Start early and allow plenty of time. Those who have been through the process know the most significant risks include:

- Ineffective project plan
- Limited or lack of audit committee and senior management involvement and support

- Limited resources with accounting knowledge
- Underestimating the impact on people, process and technology
- Surprises, delays and significant rework because external auditors are not fully engaged in the project

It is important for companies to recognize that the same risks that hinder efficient and cost-effective conversion to IFRS also can have a direct impact on their efforts to respond successfully to U.S. GAAP and IFRS convergence demands. The cost, effort and time required to respond will depend on several important factors and vary for each organization. Companies with multiple ERP systems and highly decentralized operations may need even more time. Based on this, the message is clear: Start early.

## PROVEN DELIVERY

### How We Help Companies Succeed

U.S. GAAP and IFRS convergence raises numerous issues for companies. Protiviti can help assess the impact of these changes on your firm by using diagnostics and other tools to identify and prioritize infrastructure issues that require attention. We can assist with policy and procedure development or modification, accounting and reporting process redesign, IT/ERP system controls updates or improvements, and IFRS-related project management, among other areas, and help you transform people, process and technology.

In our work assisting clients with their internal controls, we have developed solutions that help CAEs, CFOs, CIOs and chief legal officers to manage change. Our approach is based on the early establishment of a sound foundation with tone-at-the-top support and rigorous project management.

### Example

Protiviti was retained by a large multinational financial services company to provide IFRS technical support. Our responsibilities included preparing a summary of all relevant IFRS guidance for local offices and finance staff, and training personnel worldwide on IFRS technical guidance and the link between IFRS guidance and the organization’s internal controls. Based on the success of our work, the company retained Protiviti to monitor IFRS developments and assess the impact for reporting and required controls.

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### About Protiviti

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti’s highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

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