



## U.S. GAAP/IFRS Evolution and Convergence

KPMG LLP

Paul Munter  
Partner  
Jacksonville, Florida  
February 12, 2009

AUDIT • TAX • ADVISORY

## What Is IFRS?

- ◆ An accounting framework similar in character and scope to U.S. GAAP
- ◆ IASB's goal is for IFRS to become the globally-accepted, high-quality financial reporting standards
- ◆ The future of world-wide financial reporting?
- ◆ Can IFRS facilitate lower costs of capital due to improved world-wide capital allocations?



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

2

## History of International Standard Setting

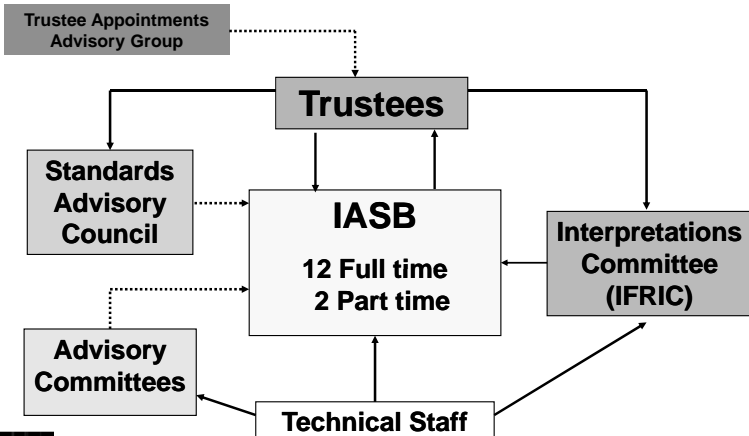
- 1973 IASC formed
- 1998 Core standards completed
- 2000 SEC review of core standards: concept release published February 2000  
IASC approves new constitution  
IOSCO review finalized  
EC proposes that all EU listed companies (some 7,000) should apply IAS by 2005
- 2001 IASB assumes accounting standard-setting responsibilities from IASC
- 2002 EU's decision to adopt IFRS from Jan 1, 2005
- 2005 First wide-spread use of IFRS
- 2007 SEC Rule-making and Concept Release on use of IFRS in the U.S.
- 2008 SEC Proposed Roadmap for Potential Mandatory use of IFRS in the U.S.
- 2009 and beyond?



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

3

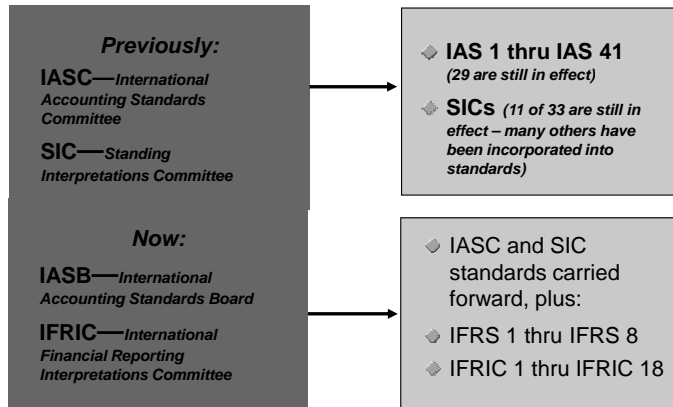
## IASB Foundation Structure



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

4

## Terminology of the Standards



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

5

## Compliance with IFRS

- ◆ **Compliance with IFRS includes following:**
  - All active standards (IASs and IFRSs)
  - All active interpretations (SICs and IFRICs)
  - IFRS requires presentation of comparative period
- ◆ **Must make explicit and unreserved statement of compliance**



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

6

## Who Uses IFRS?

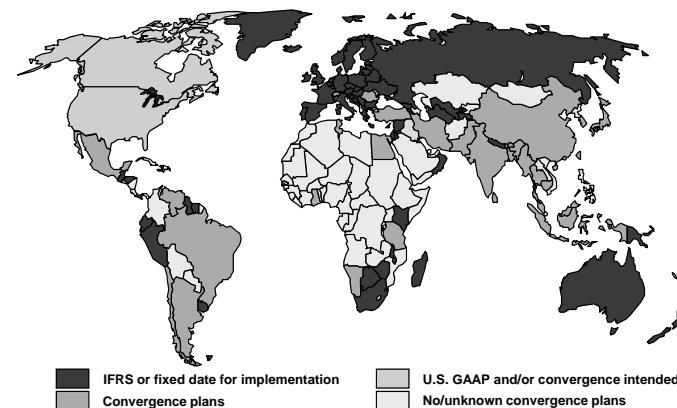
- ◆ Over 130 countries currently require the use of or have a policy of convergence with IFRS
- ◆ Increased globalization of capital and trade markets have led to increased pressures to converge/adopt
- ◆ Companies with an international footprint are finding IFRS to be preferable or necessary in many instances
- ◆ Many public U.S. companies are beginning to think about IFRS, and the impact it could have on their organizations in the coming years



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

7

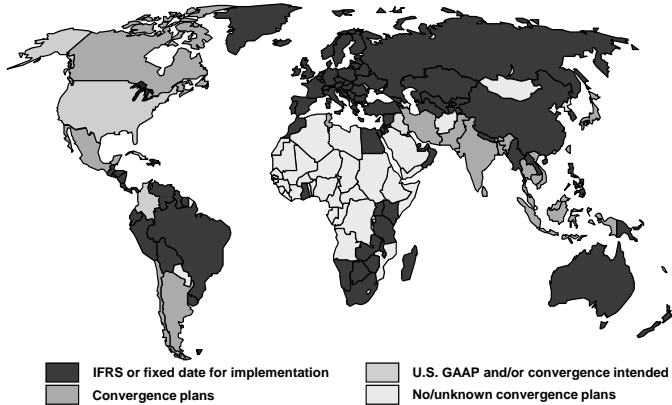
## IFRS Implementation Around the World (2004)



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

8

## IFRS Implementation Around the World (2008)



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

9

## “Wave II” is Coming

- ◆ **Korea**     **2011: IFRS mandatory for listed businesses – 2009: IFRS permitted**
- ◆ **Japan**     **Goal of full convergence by 2011**
- ◆ **China**     **Align Chinese GAAP with IFRS by 2011**
- ◆ **Israel**     **Required for public companies from 2008**
- ◆ **India**     **Convergence with IFRS for public companies for 2011**
- ◆ **Brazil**     **Banks to be required to use IFRS starting from 2010**
- ◆ **Canada**    **Timeframe set – 2011: Reporting under IFRS for publicly accountable entities**



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

10

## How Does IFRS Differ from U.S. GAAP?

- ◆ **IFRS is a less extensive body of literature than is U.S. GAAP**
  - In many instances, IFRS contains similar concepts but does not contain the same amount of detailed implementation guidance as U.S. GAAP
- ◆ **Because of less-detailed guidance, there are more circumstances where application of IFRS will require exercise of judgment**
  - Judgment will need to be supported by contemporaneous analysis
  - Clear, transparent disclosures of critical accounting policies and estimates



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

11

## Some Key Differences

- ◆ **Inventories**
- ◆ **Share-based Payment**
- ◆ **Impairment**
- ◆ **Revenue Recognition**
- ◆ **Consolidation**
- ◆ **Investment**
- ◆ **Provisions**
- ◆ **Income Taxes**
- ◆ **Pensions**
- ◆ **R&D**
- ◆ **Disclosure Content and Extent**



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

12

## U.S. GAAP – IFRS Convergence

- ◆ **The FASB and IASB have objective of convergence of U.S. GAAP and IFRS**
- ◆ **To be achieved through:**
  - Formal liaison relationships between FASB and IASB
  - Monitoring FASB and IASB's major projects
  - Short-term convergence projects
  - Joint projects (e.g., revenue recognition, leasing, liabilities and equity, consolidation, conceptual framework, financial statement presentation)



## Convergence Plan



- ◆ **Norwalk Agreement (September 2002)**
  - FASB and IASB pledged to make their existing financial reporting standards fully compatible and coordinate future work programs to ensure compatibility is maintained



- ◆ **Memorandum of Understanding between FASB and IASB (February 2006)**
  - Commitment to achieve convergence
  - Sets guidelines on how to approach the task
  - Presents standard setting goals to be accomplished by the end of 2008
- ◆ **Memorandum of Understanding Updated (September 2008)**
  - Identifies nine projects for completion by June 2011

## MoU II Projects

- ◆ **Consolidations**
- ◆ **Derecognition**
- ◆ **Fair value measurement guidance**
- ◆ **Financial instruments**
- ◆ **Debt/equity classification**
- ◆ **Financial statement presentation**
- ◆ **Leases**
- ◆ **Post-employment benefits**
- ◆ **Revenue recognition**
- ◆ **AND, while not part of MoU II – Conceptual Framework**

## Goals by 2008: Topics for Short-Term Convergence

### To be examined by the FASB

- Fair value option
- Impairment (jointly with the IASB)
- Income tax (jointly with the IASB)
- Investment properties
- Research and development
- Subsequent events

### To be examined by the IASB

- Borrowing costs
- Impairment (jointly with the FASB)
- Income tax (jointly with the FASB)
- Government grants
- Joint ventures
- Segment reporting

*Topics above per the Memorandum of Understanding dated February 27, 2006*

## Recent FASB/IASB Standards Achieving “High-Level” Convergence


*Even though the FASB/IASB worked together on these topics, key differences still remain!*



## Differences come in all shapes and sizes

- ◆ **Different levels of detail**
  - Revenue recognition e.g. software revenue recognition
- ◆ **Different approach to industry-specific guidance**
  - Types of entities vs activities
- ◆ **Different concepts/ approaches**
  - e.g., revaluation of investment properties
- ◆ **Differences in scope**
  - Employee share compensation vs all share-based payments
- ◆ **Legacy differences due to effective date and transition**
  - Business combinations applied prospectively but from a different date

***Beware converged standards – there’s always a difference!***



## Approaches to Adopting IFRS in U.S.

- ◆ **The “optional” model**
- ◆ **The “convergence” model – improve and adopt**
- ◆ **The “date-certain” model**



## Proposed Roadmap for Potential Adoption of IFRS by all U.S. Public Companies

- ◆ **Progress toward certain “milestones” would be part of the Commission’s consideration of whether to require adoption of IFRS by all U.S. public companies**
- ◆ **Milestones include:**
  - Continued improvement in IFRS. In line with the objective of improved IFRS, continuing overall progress on convergence between IFRS and U.S. GAAP
  - IASB accountability and funding stability
  - Development of an IFRS XBRL taxonomy that allows companies to file XBRL-formatted financial statements as effectively as does the U.S. GAAP XBRL taxonomy
  - Education and training of investors, preparers, and auditors



## Proposed Roadmap for Potential Adoption of IFRS by all U.S. Public Companies (cont'd.)

### ◆ SEC staff to monitor progress in achieving milestones

- If sufficient progress is made, the staff could recommend that the Commission adopt final rules requiring use of IFRS by all U.S. public companies
- Roadmap proposes Commission consideration in 2011

### ◆ Possible dates for required adoption and phase-in period:

- Large accelerated filers, calendar 2014 financial statements
- Accelerated filers, calendar 2015 financial statements
- Remaining filers, calendar 2016 financial statements



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

21

## Proposal to Grant Permission to Adopt IFRS to Limited Number of Companies

### ◆ Proposal would allow a small number of U.S. public companies to begin preparing financial statements in accordance with IFRS as early as for years ending on or after December 15, 2009

### ◆ Criteria (or “screens”) to qualify:

- Peer-group companies, as determined by SIC code or another common industry-classification scheme, report financial information using IFRS more than any other basis of accounting. Peer-group defined as 20 largest companies in the industry based on market capitalization
- U.S. company is one of the 20 largest companies

### ◆ The SEC staff estimates that at least 110 U.S. public companies would meet these requirements

- These companies represent approximately 14 percent of U.S. market capitalization



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

22

## What Happens in the Meantime?

### ◆ Companies must:

- Continue to respond to changes in U.S. GAAP in response to the FASB/IASB convergence initiative
- Start making impact assessments and readiness assessments, and engaging in scoping exercises
- Begin developing preliminary project management plans, and identifying key leaders with respect to the company's conversion effort
- Determine the degree and timing of required education for current personnel
- Start identifying what additional outside resources may be required



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

23

## Potential Benefits of Adopting IFRS

### ◆ Potential Benefits to Domestic Issuers

- Eliminate dual reporting for foreign subsidiaries using IFRS locally
- Comparability of financial information with international competitors
- Easier access to foreign capital markets
- Potentially lower cost of capital
- Increased flexibility in choosing accounting policies that match the economic substance of particular transactions



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

24

## Potential Challenges When Adopting IFRS

- ◆ Training
- ◆ IT system changes
- ◆ Changes to policies, procedures, and controls
- ◆ Contractual and legal obligations
- ◆ Different type of professional judgment
- ◆ Communications with users
- ◆ Compensation plans and performance measurement
- ◆ Accounting policy selection issues
- ◆ Divergent management, income tax and inter-group reporting bases
- ◆ Corporate governance issues
- ◆ Risks of short-term financial reporting quality shortfalls
- ◆ Increased risk of misstatement, error, omission, and fraud
- ◆ A learning curve



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

25

## Where You Can Get More Information

- ◆ The KPMG IFRS Institute is an open forum where board and audit committee members, executives, management, stakeholders and government representatives can share knowledge, gain insight and access thought leadership about the evolving global financial reporting environment. The website includes:
  - Newsfeeds and events
  - KPMG Briefing Sheets / *Defining Issues*
  - Regular Webcasts and videocasts
  - Conferences and share forums
- ◆ [www.kpmgifrsinstitute.com](http://www.kpmgifrsinstitute.com)



©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

26



### Presenter's contact details

**Paul Munter**

**KPMG LLP**

**(212) 909-5567**

**[pmunter@kpmg.com](mailto:pmunter@kpmg.com)**

**[www.kpmg.com](http://www.kpmg.com)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

©2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the U.S.A.

27