
July 23, 2012
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Paul Munter
Joe Epstein
“Early in the Staff’s research, it became apparent to the Staff that pursuing the designation of the standards of the IASB as authoritative was, among other things, not supported by the vast majority of participants in the U.S. capital markets and did not appear to be consistent with the methods of incorporation employed by the other major capital markets around the world.”

“The Staff focused on other methods of potential incorporation, such as an endorsement mechanism or continued convergence of accounting standards issued by the FASB and the IASB.”

“The Staff further recognizes that methods of incorporation other than direct incorporation could lessen the total costs required while extending any timeframe for incorporation.”
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Discussion Topics

- Overview of the Final Staff Report
- Key Findings of the Final Report Under the Work Plan
- Six Specific Areas of Consideration
- Standard Setting Activities
- Selected Reactions to SEC Staff Report
- Next Steps
Polling Question #1

Are you in favor of a single set of high-quality globally accepted accounting standards?

A. Yes, the U.S. should pick a date and switch to IFRS as issued by the IASB
B. Yes, the U.S. should switch to IFRS gradually through further convergence and endorsement efforts
C. Yes, but everyone should apply U.S. GAAP
D. No, individual jurisdictions are in the best position to establish accounting standards for their jurisdiction
Overview of the Final Staff Report
SEC Staff Activities and Reports Under IFRS Work Plan

  - Established February 24, 2010
  - Completed July 13, 2012

- Activities and Reports Under the Work Plan
  - Solicitation from Issuers and Users, August 2010
  - Roundtable, July 2011
  - Staff Papers
    - Potential incorporation of IFRS into U.S. financial reporting system ("condorsement"), May 2011
    - Consistency in application of IFRS, November 2011
    - IFRS/US GAAP differences, November 2011
Six Specific Areas of Consideration

- The SEC Staff work plan identified six areas of consideration that the Staff would evaluate as part of the Commission’s process for determining whether incorporating IFRS into the financial reporting system for U.S. issuers is in the best interest of U.S. investors and markets.

- The six areas of consideration are:
  - Sufficient development and application of IFRS for the U.S. domestic reporting system
  - Independent standard setting for the benefit of investors
  - Investor understanding and education regarding IFRS
  - Regulatory environment
  - Impact on issuers
  - Human capital readiness
Overview of Final Staff Report

- Summarizes the observations and analyses of the staff regarding the potential impact of incorporation of IFRS into the financial reporting system for U.S. issuers
- States that additional analysis and consideration is necessary before any policy decision by the Commission can occur
- The final report does not:
  - Contain conclusions or recommendations for actions by the Commission
  - Provide insight into the nature or timing of next steps
Polling Question #2

Should the SEC make a decision on whether to incorporate IFRS into the financial reporting system for U.S. issuers?

A. Yes, and they should do so ASAP as they have all the information necessary to make a decision

B. Not now, further information and analysis is necessary before making a decision

C. Not now because the SEC has other priorities that it needs to address before considering the incorporation of IFRS
Key Findings of the Final Staff Report
Under the Work Plan
SEC Staff Activities Under the Work Plan

- Staff gathered information using a variety of methods, including:
  - Performing its own independent research
  - Seeking comment from marketplace participants
  - Considering academic research
  - Researching the experiences other jurisdictions that have incorporated or have committed to incorporate IFRS into their financial reporting systems
  - Researching the experiences of foreign private issuers that currently report under IFRS
  - Holding roundtables to focus on the concerns of investors and small issuers
Potential Approaches to Incorporate IFRS into the Financial Reporting System for U.S. Issuers

1. Full adoption of IFRS on a specified date (without any endorsement mechanism)
2. Full adoption of IFRS following a transitional period of several years
3. Optional adoption of IFRS for certain issuers
4. Retain U.S. GAAP with continued convergence/endorsement
Concerns About Adoption of IFRS

Staff expanded its focus beyond the idea of a potential designation of IFRS as issued by the IASB based on the following concerns:

<table>
<thead>
<tr>
<th>Key Concerns</th>
<th>Staff Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporation Approach of Other Jurisdictions</td>
<td>• Most jurisdictions rely on some mechanism to incorporate IFRS into their domestic reporting system</td>
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<tr>
<td></td>
<td>• Endorsement process may allow a jurisdiction to exert more influence over the standard-setting process (“threat of rejection”)</td>
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<tr>
<td>Burden of Conversion</td>
<td>• A majority of issuers expressed concern that moving directly to IFRS would involve significant costs and could result in confusion to investors</td>
</tr>
<tr>
<td>References to U.S. GAAP</td>
<td>• “U.S. GAAP” is embedded throughout laws and regulations, and in contracts and arrangements</td>
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### Key Findings by the SEC Staff

<table>
<thead>
<tr>
<th>Theme</th>
<th>Key Findings by the SEC Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development of IFRS</strong></td>
<td>• Standards issued by the IASB are generally perceived to be high quality by the global financial reporting community</td>
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<tr>
<td></td>
<td>• There continues to be areas that are underdeveloped (e.g., the accounting for extractive industries, insurance, and rate regulated industries)</td>
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<tr>
<td><strong>Interpretive Process</strong></td>
<td>• Outreach both domestically and internationally indicates that the IFRS Interpretations Committee should do more to address issues in practice on a timely basis</td>
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<td></td>
<td>• IFRS Foundation has recently made changes, but it is unknown at this point whether they will be more effective in the future</td>
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<tr>
<td><strong>IASB’s Use of National Standard Setters</strong></td>
<td>• IASB should consider placing greater reliance on national standards setters to assist with:</td>
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<td>• individual projects for which they have expertise</td>
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<td>• perform outreach for individual projects to the national standard setter’s home country investors</td>
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<tr>
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<td>• identify areas in which there is a need to narrow diversity in practice or issue interpretive guidance</td>
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<td>• assist with post-implementation reviews</td>
</tr>
<tr>
<td>Theme</td>
<td>Key Findings by the SEC Staff</td>
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<td>------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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</tbody>
</table>
| Global Application and Enforcement | • Global application of IFRS and cooperation amongst regulators could be improved to narrow diversity  
  • The financial reporting community, including the SEC, can be a constructive influence on consistency of application and enforcement of IFRS                                                                                         |
| Governance of the IASB       | • Overall design of the governance structure of the IFRS Foundation appears to strike a reasonable balance of providing oversight of the IASB while supporting the IASB’s independence  
  • Additional mechanisms such as maintaining an active FASB to endorse IFRS may be necessary to protect the U.S. capital markets                                                                                   |
| Status of Funding            | • The IFRS Foundation has made progress in developing a funding mechanism that is broad-based, compelling, open-ended, and country specific  
  • More needs to be done to reduce reliance on voluntary contributions from key constituents and to obtain a funding mechanism for the U.S. portion of the IASB budget                                                                 |
| Investor Understanding       | • U.S.-based investors’ current understanding of IFRS varies significantly                                                                                                                                                  |
Six Specific Areas of Consideration
## Sufficient Development and Application of IFRS for the U.S. Domestic Reporting System

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Staff Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensiveness of IFRS</td>
<td>• The IASB has made significant progress in improving the comprehensiveness of IFRS through independent standard setting and through convergence efforts working the FASB (discussed later)</td>
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<tr>
<td></td>
<td>• There are several projects that the IASB and FASB are not devoting resources to that are in need of improvement (e.g., financial instruments with characteristics of equity and financial statement presentation)</td>
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<tr>
<td></td>
<td>• IFRS is not comprehensive with respect to certain industries or types of common transactions (e.g., utilities) and the absence of such guidance may be problematic for the U.S. marketplace</td>
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<tr>
<td>Comparability of IFRS F/S within and across Jurisdictions</td>
<td>• F/S reviewed generally appeared to comply with IFRS requirements but the quality of application of IFRS could be improved</td>
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<td></td>
<td>• Identified 2 themes from their review of F/S: (1) the transparency and clarity of IFRS F/S could be enhanced and (2) diversity in application continues to be a challenge to comparability</td>
</tr>
<tr>
<td>Auditability and Enforceability of IFRS</td>
<td>• Regulators are working together to improve consistency of application of IFRS and to reduce jurisdictional variations of IFRS</td>
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<tr>
<td></td>
<td>• The Staff is committed to working with the IASB, other securities regulators, and the accounting profession to improve the consistency in the application and enforcement of IFRS on a global basis</td>
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</tbody>
</table>
Polling Question #3

Which is your biggest concern related to the development and application of IFRS for the U.S. domestic reporting system?

A. Comprehensiveness of IFRS
B. Comparability of IFRS financial statements within and across jurisdictions
C. Auditability and enforceability of IFRS
D. I have no concerns
Independent Standard Setting for the Benefit of Investors

Monitoring Board

Trustees of IFRS Foundation

IASB

IFRS Advisory Council

IFRS Interpretations Committee

Working Groups
“Important element for a set of high-quality global accounting standards is whether the accounting standard setter’s funding and governance structure support the independent development of accounting standards for the ultimate benefit of investors”

<table>
<thead>
<tr>
<th>Concern</th>
<th>Staff Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding mechanism of the IFRS Foundation</td>
<td>• Approach as outlined in the Trustees’ Strategy Review has not yet been fully implemented</td>
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<td></td>
<td>• Funding to a large extent is based on voluntary contributions which runs counter to the funding</td>
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<td></td>
<td>requirements in the Sarbanes-Oxley Act of 2002</td>
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<tr>
<td></td>
<td>• Less than 25% of jurisdictions applying IFRS (or a variant of IFRS) are providing funding</td>
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<td></td>
<td>• A significant portion of the funding comes from the large accounting networks</td>
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For the protection of U.S. investors and the U.S. capital markets it may be necessary to put in place additional specific monitoring mechanisms such as maintaining an active FASB to endorse IFRS standards
## Investor Understanding

<table>
<thead>
<tr>
<th>Concern</th>
<th>Staff Commentary</th>
</tr>
</thead>
</table>
| Investor awareness and knowledge | • Varies significantly  
• Many investors believe that investor preparedness would not be a significant impediment to incorporating IFRS in the financial reporting system for U.S. issuers if there is a sufficient transition period and clarity in disclosures leading up to implementation of IFRS                                      |
| Investor support              | • Investors generally agree that IFRS is best positioned to achieve the goal of a single set of globally accepted standards  
• Investors also believe that the FASB should have, albeit on a limited basis, the ability to modify IFRS for use in the U.S. capital markets (e.g., require additional disclosures that would provide meaningful information to investors) |
Polling Question #4

What is your perception of investors’ current understanding of IFRS?

A. High
B. Moderate
C. Low
D. None
Regulatory Environment

The Staff noted that many regulators use U.S. GAAP financial information in its regulatory regime.

<table>
<thead>
<tr>
<th>Environment</th>
<th>Staff Commentary</th>
</tr>
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<tbody>
<tr>
<td>Many regulators have authority over both public and private companies</td>
<td>• IFRS incorporation may result in significant challenges in adjusting regulatory regimes and regulators might have to decide to either permit a two-GAAP regulatory regime or impose additional reporting burdens on certain entities</td>
</tr>
<tr>
<td>Industry specific guidance</td>
<td>• Certain industry-specific guidance may need to be retained until the IASB addresses the issue – E.g., rate regulated accounting and broker-dealer and investment company reporting</td>
</tr>
</tbody>
</table>
### Regulatory Environment (continued)

<table>
<thead>
<tr>
<th>Environment</th>
<th>Staff Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>• Potential impacts of incorporating IFRS include:</td>
</tr>
<tr>
<td>regulations</td>
<td>‒ The inability to use LIFO for financial reporting could preclude the ability to do so for tax purposes</td>
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<tr>
<td></td>
<td>‒ Changes in U.S. tax accounting methods to the extent changes in accounting policies are considered changes in accounting methods under the tax code</td>
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<td></td>
<td>‒ Changes in the computations of earnings and profits for U.S. tax purposes</td>
</tr>
<tr>
<td></td>
<td>‒ The impact on transfer pricing policies and documentation</td>
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<tr>
<td></td>
<td>‒ State apportionment of income if the transition changes underlying apportionment factors and taxes based on an entity’s equity or net worth</td>
</tr>
<tr>
<td>Audit regulations</td>
<td>• The PCAOB has not identified auditing issues that are unique to IFRS, although the PCAOB’s experience with inspections of audit firms reporting on IFRS F/S is limited</td>
</tr>
</tbody>
</table>
Polling Question #5

Which of the following are you most concerned about as a result of IFRS potentially being incorporated into the financial reporting system for U.S. issuers?

A. Two-GAAP regulatory regimes
B. Elimination of industry-specific accounting and reporting guidance
C. Impact on income taxes
D. Impact on auditing standards
## Impact on Issuers

<table>
<thead>
<tr>
<th>Finding</th>
<th>Staff Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers generally supported the objective of a single set of high quality, globally accepted accounting standards</td>
<td>• Views on incorporation of IFRS varied based on the size of the issuer, with larger issuers generally being more supportive than smaller issuers</td>
</tr>
<tr>
<td></td>
<td>• Views also varied depending on the manner of incorporation and transition period</td>
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<tr>
<td></td>
<td>• Issuers generally expressed a desire for the Commission to provide as much clarity as possible as to the ultimate approach for further incorporation of IFRS</td>
</tr>
<tr>
<td></td>
<td>• Many issuers expressed a concern about how much change the financial reporting system could absorb as a result of the number of Joint Major Projects expected to be completed over the next 18 months combined with a transition to IFRS</td>
</tr>
<tr>
<td></td>
<td>• While not unanimous, more issuers preferred a managed transition over time effected by the FASB incorporating IFRS into U.S. GAAP</td>
</tr>
</tbody>
</table>
Impact on Issuers (continued)

- Accounting systems, controls, and procedures
- Contractual arrangements
- Corporate governance
- Accounting for litigation contingencies
- Smaller issuers versus larger issuers
Polling Question #6

Which of the preparer issues identified by the SEC staff do you think would be most significantly impacted by incorporating IFRS into U.S. GAAP?

A. Accounting systems, controls, and procedures
B. Contractual arrangements
C. Corporate governance and other regulatory compliance
D. Accounting for litigation contingencies
E. Smaller issuers versus larger issuers
The Staff observed that the amount of time and effort that would be needed for issuers to transition to IFRS would be significantly impacted by the method by which IFRS is incorporated into the U.S. financial reporting system.

<table>
<thead>
<tr>
<th>Transition Approach to IFRS</th>
<th>Time</th>
<th>Effort</th>
<th>Resources Required</th>
<th>Available External / Internal Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Big Bang” Adoption</td>
<td>Less</td>
<td>More</td>
<td>More</td>
<td>Less</td>
</tr>
<tr>
<td>Endorsement Method that Phases in Changes to U.S. GAAP</td>
<td>More</td>
<td>Less</td>
<td>Less</td>
<td>More</td>
</tr>
</tbody>
</table>
Staff noted that IFRS readiness varied greatly among constituents

<table>
<thead>
<tr>
<th>Experience / Training</th>
<th>Proportion of Respondents</th>
<th>Composition of Respondents</th>
</tr>
</thead>
</table>
| Extensive             | Few                       | • U.S. practices of large international accounting firms  
                         |                           | • Large multinational companies that have foreign entities  
                         |                           | that report in jurisdictions that have or are in the  
                         |                           | process of incorporating IFRS |
| Limited               | Majority                  | • Smaller public accounting firms and regulators  
                         |                           | • Domestic companies |

Sufficiency of preparer and auditor resources dependent on approach to incorporation and transition period
- Approach and transition period also could impact readiness of academic curricula
Standard Setting Activities
## Large Number of Standard Setting Activities in 2012 and Beyond

<table>
<thead>
<tr>
<th>Topic</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment companies</td>
<td>F</td>
<td></td>
</tr>
<tr>
<td>Consolidations</td>
<td></td>
<td>tbd</td>
</tr>
<tr>
<td>Investment properties</td>
<td>F</td>
<td></td>
</tr>
<tr>
<td>Revenue recognition</td>
<td></td>
<td>F</td>
</tr>
<tr>
<td>Financial Instruments: Impairment</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>Financial Instruments: Classification and Measurement</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>Financial Instruments: Hedging</td>
<td></td>
<td>tbd</td>
</tr>
<tr>
<td>Leasing</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>E</td>
<td></td>
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</tbody>
</table>

E-Exposure Draft | F- Final Standard

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Changes on the Horizon

- Broad-reaching accounting changes to IFRS and U.S. GAAP
- Number of changes, irrespective of what the SEC might decide about incorporation of IFRS
- Retrospective application of certain standards moves up “effective date”
- Takes time to put change management infrastructure in place
Selected Reactions to SEC Staff Report
Chairman of Trustees

- Report notes many challenges that a large economy such as the U.S. faces when transitioning to IFRS.
- Other jurisdictions have successfully overcome many of these challenges.
- Trustees regret that the staff report is not accompanied by a recommended action plan for the SEC.
- For the benefit of both U.S. and international stakeholders, Trustees look forward to the SEC resolving the continued uncertainty regarding the U.S.’s commitment to global accounting standards.

Chairman of IASB

- IFRS has already achieved critical mass as international standards with more than 2/3 of G20 now on board.
- We are confident in our mission to achieve a single set of high quality global accounting standards and continue to work to serve investors and other users of IFRS around the world.
FAF (FAF oversees the FASB)

- **FAF President and CEO**
  - Commended the staff for producing a detailed report that carefully outlines the history, progress and challenges of those efforts
  - The FAF and FASB look forward to examining the report in greater detail and will continue to closely monitor the Commission’s next steps
  - The FAF and FASB remain committed to creating greater comparability in global accounting standards as we pursue our central mission
Next Steps
Next Steps

- The Staff invited constituents to provide feedback on its final report but did not provide a submission deadline.

- Before any final Commission action, it would be expected that the Staff would develop a proposal for Commission consideration and the Commission would seek additional constituent input.

- Next steps and timing of action by the staff or Commission is unknown.
Questions?
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