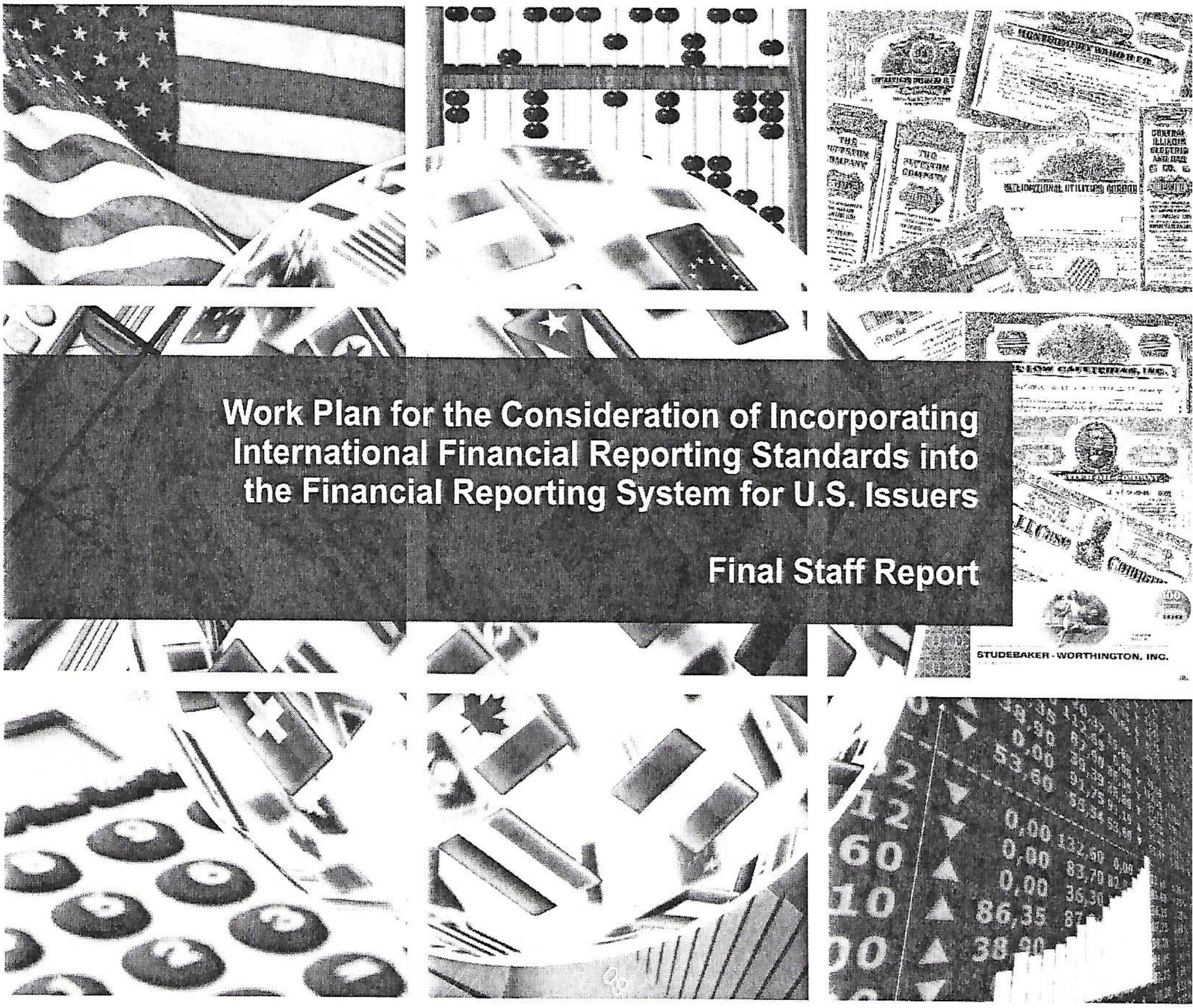
July 13, 2012



Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers

Final Staff Report

OFFICE OF THE CHIEF ACCOUNTANT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

This is a paper by the Staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

Introductory Note

The following report was prepared by the staff of the U.S. Securities and Exchange Commission to summarize the observations and analyses of the staff regarding six key areas identified for study in the Work Plan for global accounting standards. The Commission directed the staff to develop and execute the Work Plan in February 2010. At that time, the Commission issued a statement indicating that the information obtained through the Work Plan, among other considerations, would aid the Commission in evaluating the implications of incorporating International Financial Reporting Standards into the financial reporting system for U.S. issuers.

The Commission believes it is important to make clear that publication of the Staff Report at this time does not imply—and should not be construed to imply—that the Commission has made any policy decision as to whether International Financial Reporting Standards should be incorporated into the financial reporting system for U.S. issuers, or how any such incorporation, if it were to occur, should be implemented.

Although the Staff Report is constructive and an important contribution, the Work Plan did not set out to answer the fundamental question of whether transitioning to IFRS is in the best interests of the U.S. securities markets generally and U.S. investors specifically. Additional analysis and consideration of this threshold policy question is necessary before any decision by the Commission concerning the incorporation of IFRS into the financial reporting system for U.S. issuers can occur.

The Staff Report has not been approved by Commission action and does not necessarily reflect the views of the Commission or any Commissioner.

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GAAP to IFRS as issued by the IASB would be significant, if not nearly impossible, at least in any near-term time horizon.

For these reasons, there appears to be relatively less support within the U.S. financial reporting community for the designation of the standards of the IASB as authoritative for use by U.S. issuers for domestic reporting purposes. However, the Staff found there to be substantial support for exploring other methods of incorporating IFRS that demonstrate the U.S. commitment to the objective of a single set of high-quality, globally accepted accounting standards while addressing some of the aforementioned concerns. Therefore, the Staff focused its efforts on other potential incorporation methods of IFRS.

C. Summary Findings

The remainder of this Final Staff Report focuses on the results of the Staff's work and observations from the Staff. Some of the more significant themes that emerged from the Staff's analysis are summarized below.

1. Development of IFRS

Since its inception, the IASB has made significant progress in developing a comprehensive set of accounting standards. The progress includes recent efforts by the IASB, in concert with the FASB, to improve the standards related to the convergence projects, including revenue recognition and lease accounting. The standards that are issued by the IASB are generally perceived to be high quality by the global financial reporting community. However, there continue to be areas that are underdeveloped (e.g., the accounting for extractive industries, insurance, and rate-regulated industries). By comparison, U.S. GAAP also contains areas for which guidance is in need of continued development (e.g., push-down accounting and government grants), but the perception among U.S. constituents is that the "gap" in IFRS is greater.

2. Interpretive Process

One of the important roles of any standard setter is the adequate maintenance of its standards. The IFRS Interpretations Committee ("IFRS IC") is the interpretative body of the IASB.[9] The mandate of the IFRS IC is to review, on a timely basis, widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance on those issues. However, the Staff's outreach both domestically and internationally indicates that the IFRS IC should do more to address issues on a timely basis. The IFRS Foundation, the governing body of the IASB, has recently implemented changes that may assist in addressing this concern, but the changes were only recently implemented, and it is unknown at this point whether they will be effective.

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[9] The IFRS IC is responsible for interpreting the application of IFRSs and providing timely guidance on financial reporting issues not specifically addressed in IFRSs. Draft and final Interpretations developed by the IFRS IC are ratified by the IASB before publication.

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3. IASB's Use of National Standard Setters

In order to develop accounting standards that could be incorporated in multiple jurisdictions, the IASB needs to understand the intricacies of a number of distinct domestic reporting and regulatory systems. This challenge can be difficult in the best of circumstances. The IASB has a set of procedures for interacting with national standard setters on individual projects. In addition, a significant number of national standard setters meet with members of the IASB periodically to discuss accounting issues and current IASB projects. However, the IASB should consider greater reliance on national standard setters. The national standard setters could assist with individual projects for which they have expertise, perform outreach for individual projects to the national standard setter's home country investors, identify areas in which there is a need to narrow diversity in practice or issue interpretive guidance, and assist with post-implementation reviews.

4. Global Application and Enforcement

One of the perceived benefits of a single set of high-quality, globally accepted accounting standards is that investors can read a set of financial statements of any company, understand the financial results, and make comparisons to the results of other companies. However, in order to derive many of the key benefits of a single set of accounting standards, it is critical that those standards are applied and enforced on a consistent basis. The Staff conducted a review of financial statements prepared in accordance with IFRS to assess the consistency in application.[10] The results of the Staff's review were consistent with its expectations and confirmed that, while the financial statements reviewed generally appeared to comply with IFRS, global application of IFRS could be improved to narrow diversity. Since IFRS is being incorporated into an increasing number of countries that will have perspectives about the application of IFRS, a greater emphasis will be placed on the Staff to work more cooperatively with regulators in other jurisdictions if IFRS is incorporated into the financial reporting system for U.S. issuers. An increased level of cooperation is important to allow regulators to share views on application and enforcement and, thus, foster global consistency. The Staff believes that the financial reporting community, including the SEC, can be a constructive influence on the consistent application and enforcement of IFRS.

5. Governance of the IASB

According to the Staff's assessment, the overall design of the governance structure of the IFRS Foundation appears to strike a reasonable balance of providing oversight of the IASB while simultaneously recognizing and supporting the IASB's independence. As is typical with a global organization, the IASB does not have a mandate to consider the establishment of standards with the focus of any single capital market. As it relates to considering the needs of U.S. investors and the U.S. capital markets, the Staff believes that it may be necessary to put in place mechanisms specifically to consider and to protect the U.S. capital markets—for example, maintaining an active FASB to endorse IFRSs.

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[10] The Staff published a paper documenting the results of its review. See infra note 69.

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6. Status of Funding

The IFRS Foundation has made progress in developing a funding mechanism that is broad-based, compelling, open-ended, and country-specific. However, the IFRS Foundation is a private not-for-profit organization and ultimately has no ability to require or compel funding. Further, while the IFRS Foundation indicates that IFRS is used on some basis in more than 100 countries around the world, currently funding is provided to the IFRS Foundation by businesses, not-for-profits, and governments in fewer than 30 countries. Currently, the IFRS Foundation Trustees have been unsuccessful in obtaining the funding for the portion of the IASB budget allocated to the United States.[11] In theory, this shortfall should be somewhat offset by the services contributed to the IASB by U.S. sources, such as the FASB staff efforts on U.S. GAAP-IFRS convergence projects. The Financial Accounting Foundation ("FAF") is committed to participating in discussions on the issue of funding from U.S. sources.[12] Notwithstanding the above observations, the Staff's most significant concern about the funding approach is the continued reliance on the large public accounting firms to provide funds to the IASB.

7. Investor Understanding

The Staff has received helpful input from investors regarding how they participate in the standard-setting process. In the course of this outreach, the Staff observed that investor education on accounting issues and changes in the accounting standards is not uniform. The Staff understands that investors tend to rely generally on issuers, the large public accounting firms, and publications to understand recent changes to accounting standards. Regardless of the ultimate determination by the Commission as to whether to incorporate IFRS, the Staff will consider how investor engagement and education related to the development and use of accounting standards could be improved.

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[11] See section III. for a discussion of the IASB governance structure, including the role of the IFRS Foundation and its Trustees, in general terms, and as it relates to funding responsibilities.

[12] See comment letter of the FAF on the 2011 May Staff Paper. The FAF is the parent organization of the FASB. (Commenters on the 2011 May Staff Paper cited throughout this document are identified in Appendix A: List of Commenters to the Summary of Comments on the 2011 May Staff Paper, which is attached as Exhibit E hereto ("Summary of Comments on the 2011 May Staff Paper").)

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The Staff focused on the differences between U.S. GAAP and IFRS at the principle level, in part to understand whether the nature of the information communicated to investors was significantly different if one set of standards was applied as opposed to the other. In comparing U.S. GAAP to IFRS in this manner, the Staff identified numerous instances that could result in the accounting for and disclosure of similar transactions differing. However, the differences may not necessarily be presumed to have a direct or consistent correlation to the quality of IFRS. Further, the differences between U.S. GAAP and IFRS are not meant to be determinative that their elimination would be necessary before any Commission consideration of the incorporation of IFRS. However, the existence of differences indicates a need for the Staff to consider specifically such differences to determine whether investors and other users of the financial statements would be losing or gaining significant informational content and to determine the effect on transitional considerations if IFRS were to be incorporated.

The differences identified in the GAAP Comparison Paper can be grouped into several broad categories. For example, certain differences may exist but the objectives of the guidance are similar, the standards have been substantially converged, or both. Other differences exist that are more fundamental in nature and could significantly impact information provided to investors. The following categories of differences are discussed further below:

- The Boards' MoU and Other Joint Projects;
- Standards with a Similar Objective, that Are Substantially Converged, or Both;
- Fundamental Differences; and
- Industry Guidance.

1. The Boards' MoU and Other Joint Projects

HISTORY BETWEEN US GAAP + IFRS

The Boards have long supported the development of high-quality, globally accepted accounting standards. Since committing to the "Norwalk Agreement" after their joint meeting in September 2002, the Boards have been working toward that goal jointly.[23] In the Norwalk Agreement, the Boards:

> acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained.[24]

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[23] See Boards, Memorandum of Understanding: "The Norwalk Agreement" (Sept. 18, 2002) ("Norwalk Agreement") (available at: http://www.fasb.org/news/memorandum.pdf). The Norwalk Agreement represents the first formal agreement between the Boards to work together on high-quality accounting standards and outlines the objectives for their work together towards the international convergence of accounting standards.

[24] Id.

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In February 2006, the Boards issued the MoU.[25] In the MoU, eleven areas of focus ("Major Joint Projects") were identified by the Boards as joint projects comprising accounting topics that warranted improvement.[26] The Boards also identified areas where differences between U.S. GAAP and IFRS could be eliminated through short-term standard-setting projects by either the FASB or the IASB, or on a joint basis ("Short-term Convergence Projects").[27] The MoU also outlined the progress the Boards expected to achieve by 2008.

In September 2008, the Boards provided an update to the MoU.[28] The Boards highlighted that, when they established the MoU in 2006, they agreed on priorities and set milestones only through 2008, while expecting that all of the Major Joint Projects would not be completed by 2008. The Boards also updated their 2008 timetable for the Major Joint Projects to set milestones for completion to be achieved by June 2011.

In June 2010, the Boards modified the milestones outlined in prior statements on the MoU progress.[29] These changes gave priority to Major Joint Projects that the Boards perceived were in most need of improvement and allowed for more effective stakeholder outreach to increase the quality of those standards ("priority Major Joint Projects").[30] To enable this increased focus on the priority Major Joint Projects, the Boards elected to reduce focus on the remaining Major Joint Projects.[31] Further, in a progress report released in April 2012, the Boards

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25 See supra note 15.

26 The Major Joint Projects included: business combinations; consolidations; fair value measurement; financial instruments with characteristics equity; financial statement presentation (including other comprehensive income and discontinued operations); post-retirement benefits (including pensions); revenue recognition; derecognition; financial instruments; intangible assets; and leases.

27 The Short-term Convergence Projects included: fair value option, investment properties, research and development, and subsequent events (FASB); income taxes and impairment (joint); and borrowing costs, government grants, joint ventures, and segment reporting (IASB).

28 See Boards, Update to the February 2006 Memorandum of Understanding: A progress report and timetable for completion (Sept. 2008) (available at: http://www.fasb.org/intl/MOU_09-11-08.pdf). A similar statement was issued in November 2009. See Boards, FASB and IASB Reaffirm Commitment to Memorandum of Understanding (Nov. 5, 2009) (available at: http://www.ifrs.org/News/Press+Releases/IASB+and+FASB+Reaffirm+Commitment+to+Memorandum+of+Understanding.htm).

29 See Boards, Joint Statement by the IASB and the FASB on their Convergence Work (Jun. 2, 2010) (available at: http://www.ifrs.org/News/Announcements+and+Speeches/IASB+and+FASB+issue+statement+on+their+convergence+work.htm). See also Boards, Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards (Jun. 24, 2010) (available at: http://www.iasb.org/NR/rdonlyres/A8B4D5B7-E776-4D80-BA54-17563F1E2297/0/MOU_Status_Update_24June_2010_FINAL.pdf).

30 The priority Major Joint Projects included: financial instruments; revenue recognition; leases; presentation of other comprehensive income; fair value measurement; insurance contracts; and converging disclosures on derecognition and consolidation.

31 The remaining non-prioritized Major Joint Projects included: financial statement presentation (including discontinued operations); financial instruments with characteristics of equity; consolidations; and derecognition.

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announced that they had extended their timetable for the remaining priority Major Joint Projects to mid-2013.[32]

To date, the Boards have made progress on some of the priority Major Joint Projects and, for that, the Boards should be commended. However, work on these projects continues.[33] The Boards have, at times, struggled to reach converged conclusions in some areas, which has contributed to delays in project timing and, for several projects, to total suspension of efforts. The Boards' efforts have been further complicated by a number of challenges during the last several years, including a financial crisis and shifting priorities of investors and regulators. In an effort to minimize divergence caused by a variety of influences, the Boards have been deliberate in working together more closely, including increasing the frequency of the in-person joint Board meetings. There have been obvious and tangible benefits to the Boards working together to share ideas and deliberate issues together. However, through its outreach, the Staff has noted that the continued effectiveness of the Boards working jointly under the current structure is often cited as an area of concern.[34]

The Staff has assessed, and will continue to assess, the Boards' progress and conclusions reached on the Major Joint Projects separate from its efforts on the Work Plan. Therefore, any analysis of the developing or completed standards related to the Major Joint Projects is separate from the Staff's efforts on the comparison analysis that were summarized in the GAAP Comparison Paper. The Staff's ongoing assessment of the Major Joint Projects includes monitoring the Boards' deliberations, reviewing exposure documents, and considering constituent comment letters, among other activities. The status of the Major Joint Projects and conclusions reached thereon remain factors, among many others, for the Commission to evaluate in its consideration of whether to incorporate IFRS into the financial reporting system for U.S. issuers.

Although the Boards have made significant progress related to a number of the Major Joint Projects, the extent of differences between U.S. GAAP and IFRS that exists today is greater than the Staff would have expected in 2010 when the Commission directed the Staff to embark upon the Work Plan. This has not led the Staff to conclude that consideration of incorporation of IFRS should be abandoned. Although not supporting abandonment, some commenters to the 2011 May Staff Paper expressed that the MoU should be completed before any decision is made by the Commission.[35] The Staff believes that due consideration should be given as to whether, in the absence of more fully converged standards, there are unique issues that should be considered to the extent that differences remain and whether there are any significant impediments to

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[32] See Boards, Joint Update Note from the IASB and FASB on Accounting Convergence, Note from IASB on Governance Enhancements (Apr. 5, 2012) (available at: http://www.financialstabilityboard.org/publications/r_120420d.pdf).

[33] A detailed description of the status of the Major Joint Projects can be found on the FASB and IASB websites. See FASB, FASB Technical Plan and Project Updates (available at: http://www.fasb.org). See also IASB, IASB Work Plan (available at: http://www.ifrs.org).

[34] See, e.g., SEC IFRS Roundtable transcript (comments of Gregory Jonas, Managing Director, Morgan Stanley).

[35] See, e.g., comment letters of Chevron; CSX; Dell; Emerson; and Intel on the 2011 May Staff Paper.

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incorporation (including, but not limited to, (1) whether investors lose informational content and transparency in such non-converged areas, and (2) the impact on preparers from having to consider the additional remaining differences). The consideration of the unique issues could be accomplished in a number of ways, including through an endorsement mechanism whereby the FASB considers such differences, particularly when a more fundamental difference exists between the two sets of standards.

Similarities + Differences

2. Standards with a Similar Objective, that Are Substantially Converged, or Both

In the GAAP Comparison Paper, the Staff noted a number of areas in U.S. GAAP and IFRS for which the standards have a similar objective, are substantially converged, or both. Some of these standards are converged as a result of the efforts of the Boards on MoU-related projects. Despite the similarities between the text of IFRS and U.S. GAAP, the Staff is not implying that the application of both standards would result in the same amounts or financial statement disclosures being reported to investors. Rather, the Staff would expect a change from U.S. GAAP to similar IFRS requirements to result in reported amounts and disclosures that are similar in nature to the information reported under U.S. GAAP. The following examples represent some of the more significant areas of similarity between IFRS and U.S. GAAP that were noted by the Staff.

Business Combinations

U.S. GAAP and IFRS contain similar principles and requirements for accounting for business combinations because of the collaborative efforts of the Boards in developing the current standards. However, certain differences continue to exist that could impact the recognition and measurement of certain transactions, including with respect to noncontrolling interests, contingent consideration, and common control transactions.[36]

Debt

U.S. GAAP and IFRS have generally similar requirements for accounting for debt. Both standards require most financial liabilities to be measured at amortized cost on the balance sheet, with a fair value option available for qualifying instruments. The differences between the standards primarily relate to U.S. GAAP's provision of more arrangement- and industry-specific guidance than IFRS.[37]

Share-Based Compensation

The guidance for share-based compensation transactions has largely been converged because of the Boards' collaboration. The overall objectives of both sets of standards are the same. However, the scoping of the standards is different, and there is an increased level of illustrative and application guidance under U.S. GAAP. These differences could give rise to

[36] For more information, see Section III.X of the GAAP Comparison Paper.

[37] For more information, see Section III.R of the GAAP Comparison Paper.

differences in classification, measurement dates, and expense recognition for transactions accounted for under IFRS as compared to U.S. GAAP.[38]

Compensation – Excluding Share-Based Payments

U.S. GAAP and IFRS contain requirements for the accounting for and reporting of various compensation arrangements. The principle-level objectives of the standards are generally similar, with differences arising in some of the detailed requirements of the relevant standards.[39]

Earnings Per Share

U.S. GAAP and IFRS contain similar requirements for calculating earnings per share. There are differences in the detailed requirements, which could result in differences in the amounts reported under U.S. GAAP and IFRS.[40]

3. Fundamental Differences

In the GAAP Comparison Paper, the Staff noted the existence of some more fundamental differences between U.S. GAAP and IFRS. These differences exist for various reasons. First, in some cases, the Boards had different objectives in developing the standards—either because the Boards reached different conclusions about how best to communicate the economics of a transaction to investors or because the standards were developed at different times when the objectives of standard setting in general were different. Second, in some cases, standard setting that has occurred by one Board or the other in response to market or regulatory structures has resulted in differences in the standards (e.g., accounting for certain nonfinancial liabilities and last-in, first-out ("LIFO") inventory costing). Third, in some instances, the differences were the result of anti-abuse protections developed in the United States (e.g., the accounting provisions for sales of real estate, as currently codified in Accounting Standards Codification ("ASC") Subtopic 360-20). Finally, in some cases, although the standards' objectives may appear to be similar, the underlying guidance diverges, resulting in differences that are more fundamental in nature. The following represents some of the more significant areas that were noted by the Staff. In some cases, the resolution of these differences will be individually challenging (e.g., removal of, or any change to, LIFO), and any attempt by the SEC or others to resolve these differences in a time period even as long as five to seven years may prove to be difficult.

Impairment

The impairment models for property, plant, and equipment ("PP&E"), inventory, and intangible assets are summarized in the GAAP Comparison Paper. For each of these topics, the impairment methodology for recognizing and measuring an impairment loss differs between U.S.

[38] For more information, see Section III.T of the GAAP Comparison Paper.

[39] For more information, see Section III.S of the GAAP Comparison Paper.

[40] For more information, see Section III.B of the GAAP Comparison Paper.

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GAAP and IFRS. The IFRS models allow for reversals of impairments up to a certain amount if there is an indication that an impairment loss has decreased; whereas, the U.S. GAAP models preclude reversals of impairments. This distinction could result in differences in the timing and extent of recognized impairment losses. U.S. issuers could experience greater income statement volatility if the IFRS models were incorporated (flowing from recoveries of values previously written down).[41]

Certain Nonfinancial Liabilities

The recognition of certain nonfinancial liabilities (e.g., contingencies and environmental liabilities) is governed by the probability that a liability has been incurred under both U.S. GAAP and IFRS. However, U.S. GAAP and IFRS differ in their definitions of what is "probable." For example, for contingencies, IFRS defines probable as "more likely than not to occur." By contrast, U.S. GAAP defines it as "the future event or events are likely to occur." "Likely" is considered to be a higher threshold than "more likely than not," meaning U.S. GAAP has a higher recognition threshold than does IFRS. The effect of this difference is that, under IFRS, a liability often will be recognized earlier than under U.S. GAAP.

In addition, under U.S. GAAP, an obligation for a cost associated with exit or disposal activities generally is recognized in the period in which the liability is incurred. By contrast, costs may be accrued under IFRS at an earlier date—for example, when a restructuring is announced or commences. The lower threshold under IFRS for certain nonfinancial liabilities could lead companies to record provisions earlier under IFRS than they would have under U.S. GAAP.[42]

Measurement of Certain Asset Classes

Under IFRS, certain assets (e.g., capitalized acquired intangibles and PP&E) are initially recognized at cost. For subsequent measurement, entities must make an accounting policy election by asset class to continue with a cost model or to revalue the assets within each class to fair market value (less any subsequent accumulated amortization or depreciation). U.S. GAAP precludes use of a revaluation model.

Under IFRS, an entity can also make an election to adopt either the fair value model or the cost model to account for investment properties.[43] U.S. GAAP generally only allows for the

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[41] For more information, see Sections III.K (PP&E), III.H (inventory), and III.J (intangible assets) of the GAAP Comparison Paper.

[42] For more information, see Section III.P of the GAAP Comparison Paper.

[43] The FASB currently has a standard-setting project that was initiated to obtain convergence in this area. However, if the FASB's project were finalized consistent with deliberations to date, differences would remain between IFRS and U.S. GAAP. See FASB, Exposure Draft, Proposed Accounting Standards Update – Real Estate—Investment Property Entities (Topic 973) (Oct. 21, 2011) ("IPE Exposure Draft") (available at: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157086783).

cost model, unless the entity meets certain criteria.[44] The optionality permitted under IFRS could result in significant differences in the carrying value of assets as compared to U.S. GAAP.[45]

Inventory

IFRS does not allow for the use of the LIFO costing methodology for inventory, which is permitted under U.S. GAAP. The Staff's research indicates that this difference could have a significant impact on the operating results and income taxes payable of certain U.S. issuers. With respect to income taxes, the Internal Revenue Service ("IRS") has conformity provisions such that certain methods of accounting are allowed for tax purposes only if the entity also uses that method for financial reporting purposes—LIFO is one such method subject to conformity provisions. Thus, absent a change in IRS rules, eliminating LIFO from U.S. GAAP would, in effect, eliminate its use for tax purposes as well. Several stakeholders have commented on this difference and the potential significant tax impact that eliminating LIFO would have on U.S. issuers.[46] The Staff believes that this difference is more of an issue of tax policy rather than of financial reporting, but the effect remains an element of the Staff's overall consideration of the incorporation of IFRS.[47]

Research and Development

Costs for research and development activities are generally expensed as incurred under U.S. GAAP. Costs for research activities are expensed as incurred under IFRS, but costs for development activities that meet certain criteria are capitalized. This difference in expense recognition could potentially impact U.S. issuers and result in a change in the timing of recognition (e.g., capitalization of certain costs upon development and subsequent amortization of that asset over its useful life).[48]

Income Taxes

U.S. GAAP and IFRS require income taxes to be accounted for using an asset and liability approach that recognizes both the current tax effects and the expected future tax consequences of events that have been recognized for financial or tax reporting (i.e., deferred

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[44] Investment properties are recorded at fair value under U.S. GAAP in the following instances: (1) the entity determined that it is an investment company in accordance with ASC Topic 946; (2) the entity is controlled by a pension plan that is required to measure its investments at fair value; or (3) the entity follows industry practices that have developed over time allowing fair value measurement for real estate investments without regard to investment company attributes or pension plan ownership. These instances of fair value measurement were noted by the FASB staff in the IPE Exposure Draft.

[45] For more information, see Sections III.J and III.K of the GAAP Comparison Paper.

[46] See, e.g., comment letter of TLIFOC (the LIFO Coalition) on the 2011 May Staff Paper. The commenter noted that if U.S. issuers adopt IFRS they would be forced to violate the IRS conformity requirements. The LIFO Coalition requested the SEC to provide a carve-out for LIFO accounting, in the event the SEC decides to require U.S. issuers to adopt IFRS.

[47] For more information, see Section III.H of the GAAP Comparison Paper.

[48] For more information, see Section III.V of the GAAP Comparison Paper.

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taxes) each period. However, certain fundamental differences exist. For example, IFRS does not specifically address the accounting for uncertain tax positions. Rather, the general contingency model is followed under IFRS. Leveraging the contingency model was historically the practice under U.S. GAAP as well; however, the FASB subsequently issued specialized guidance on this topic. These differences in methodology may result in differing outcomes under IFRS as compared to U.S. GAAP. The difference in methodology also necessitates different disclosure requirements for uncertain tax positions.[49]

Property, Plant, and Equipment

Under IFRS, each part of an item of PP&E with a cost that is significant in relation to the total cost of the item is required to be depreciated separately (i.e., as if each part was a separate asset). This notion is frequently referred to as "asset componentization." Under U.S. GAAP, an item of PP&E that has multiple parts is generally depreciated over a useful life attributed to the item as a whole. The approach required under IFRS is not precluded from use under U.S. GAAP; however, the Staff understands is it not an approach commonly applied currently by U.S. issuers. Further, the Staff's research highlights that the approach required under IFRS for asset componentization could significantly impact issuers upon application of IFRS.[50]

4. Industry Guidance

Commenters on the 2008 Roadmap and the 2011 May Staff Paper discussed the importance of certain industry-specific guidance in accounting standards.[51] U.S. GAAP is a mature body of standards that has been specifically tailored to the needs of the business, reporting, and regulatory environment in the United States over its development. By contrast, the IASB has not historically issued industry-specific guidance, preferring instead that issuers use its generally-applicable (i.e., industry-neutral) principles.

Authoritative U.S. GAAP historically was developed from the collective efforts of various standard setters that served different purposes. The different types of standards issued—for example, FASB Statements, American Institute of Certified Public Accountants ("AICPA") industry Audit and Accounting Guides, consensus positions of the Emerging Issues Task Force ("EITF"), and FASB staff implementation guidance (i.e., Q&As)—had different levels of authority, as prescribed by AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, and subsequently by FASB Statement No. 163, *The Hierarchy of Generally Accepted Accounting Principles*. The accounting guidance issued by several of these standard setters was intended to address industry-specific matters, particularly for situations in which the appropriate application of more general guidance was unclear or deemed to result in less relevant information for companies operating in certain industries. Although the FASB has since created a single source of authoritative U.S.

[49] For other examples and for more information, see Section III.W of the GAAP Comparison Paper.

[50] For more information, see Section III.K of the GAAP Comparison Paper.

[51] See, e.g., comment letters of AGA; Ameriprise; API; Chevron; CMS; Duke; Exxon; FEI; IMA; PPL; Progress; SIFMA; Southern; Williams; TransCanada; and Zions on the 2011 May Staff Paper.

(*) The Study By The SEC (*) (15)

1. Staff Analysis of IFRS in Practice

The Staff analyzed the fiscal 2009[66] annual consolidated financial statements of 183 companies, including both SEC registrants (foreign private issuers) and companies that are not SEC registrants, which prepare financial statements under IFRS.[67] The population reviewed comprised companies from 22 countries and 36 industries.[68] At the time of the project, 47 companies in the sample were SEC registrants, while another 29 companies previously had been SEC registrants.

The Staff documented its observations regarding the application of IFRS in practice in a Staff paper in order to inform the public of the Staff's Work Plan efforts and to provide the Commission with information to assist it in its future determination of whether and, if so, how, to incorporate IFRS.[69] The IFRS Application Paper was not intended to, and did not, compare the application of IFRS to the application of U.S. GAAP. Accordingly, similar observations may be present among companies reporting under U.S. GAAP. In addition, the observations in the IFRS Application Paper were not intended to be determinative as to whether or not IFRS is positioned for incorporation into the financial reporting system for U.S. issuers.[70]

The Staff also included in the IFRS Application Paper observations from comments that the Division of Corporation Finance ("DCF") issued in its reviews of the most recent SEC filings of approximately 140 of the approximately 170 foreign private issuers[71] that are registered with the Commission and that disclosed that they prepared their financial statements in accordance with IFRS as issued by the IASB.

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66 Generally, the most recent annual consolidated financial statements available at the time of the analysis were the fiscal 2009 financial statements for each of the companies. In light of the anticipated time frame for issuing a Staff paper with the analysis and findings and given the number of companies to be analyzed, the availability of financial statements, and the time needed to complete the analysis and synthesize the results, the Staff determined that fiscal 2009 financial statements would be used for purposes of the analysis.

67 The 183 companies are the members of the Global Fortune 500 that prepare their financial statements in accordance with IFRS and for which English translations of the financial statements were readily available. The sample included financial statements prepared under IFRS (without qualifiers), IFRS as issued by the IASB, IFRS as adopted by the European Union ("EU"), and IFRS as adopted in Australia.

68 Eighty-one percent of the companies were from the EU.

69 See SEC Division of Corporation Finance, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: An Analysis of IFRS in Practice: A Securities and Exchange Commission Staff Paper (Nov. 16, 2011) ("IFRS Application Paper").

70 See IFRS Application Paper for a further explanation of how the analysis was performed.

71 The 47 SEC registrants noted above to be in the sample of 183 companies that the Staff analyzed are also part of the 140 foreign private issuers reviewed.

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In the IFRS Application Paper, the Staff found that company financial statements generally appeared to comply with IFRS requirements. This observation, however, should be considered in light of the following two themes that emerged from the Staff's analysis:

- First, across topical areas, the transparency and clarity of the financial statements in the sample could be enhanced. For example, some companies did not provide accounting policy disclosures in certain areas that appeared to be relevant to them. Also, many companies did not appear to provide sufficient detail or clarity in their accounting policy disclosures to support an investor's understanding of the financial statements, including in areas they determined as having the most significant impact on the amounts recognized in the financial statements. Some companies also used terms that were inconsistent with the terminology in the applicable IFRS. Further, some companies referred to local guidance, the specific requirements of which were often unclear. Consequently, certain disclosures presented challenges to understanding the nature of a company's transactions and how those transactions were reflected in the financial statements.

  In some cases, the disclosures (or lack thereof) also raised questions as to whether the company's accounting complied with IFRS. As the analysis conducted for the IFRS Application Paper was not part of the Division of Corporation Finance's disclosure review program, the Staff was unable to obtain additional information from those companies that could have resolved many of these questions.

- Second, diversity in the application of IFRS presented challenges to the comparability of financial statements across countries and industries. This diversity can be attributed to a variety of factors. In some cases, diversity appeared to be driven by the standards themselves, either due to explicit options permitted by IFRS or the absence of IFRS guidance in certain areas. In other cases, diversity resulted from what appeared to be noncompliance with IFRS.

  The diversity arising from the standards themselves was, at times, mitigated by guidance from local standard setters or regulatory bodies that narrowed the range of acceptable alternatives already permitted by IFRS or provided additional guidance or interpretations. This diversity also was mitigated by a tendency by some companies to carry over their previous home country practices in their IFRS financial statements. While country guidance and carryover tendencies may promote comparability within a country, they may diminish comparability on a global level.[72]

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[72] IFRS Application Paper. In the IFRS Application Paper, the Staff focused on highlighting the areas for which it appeared that there was diversity in practice. This focus was selected as a way of understanding the potential

[Footnote continued on next page]

For a complete discussion of the Staff's observations, please refer to the IFRS Application Paper.[73]

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The issue of non-comparability across jurisdictions was highlighted by the Chairman of the IASB in a speech at the 2011 IFRS Foundation/AICPA conference. In his prepared remarks, Chairman Hoogervorst noted:

> A more compelling criticism of IFRSs is that inconsistent application of the standards makes international comparison more difficult.
>
> There is certainly some truth in this argument, as we have witnessed with the accounting for Greek sovereign debt. However, the same is true when you have different accounting standards. You can only work towards consistent application if you have one single language. We are very much committed to working with securities regulators and the accounting profession to enhance consistent application around the world. It will take time, but it can be done. If you do not have a single language, international consistency in financial reporting will always remain an illusion.[74]

The Staff's recent interaction with other regulators indicates an increased focus by regulators on facilitating consistent application across jurisdictions. This increased attention to international comparability, including with respect to the accounting for sovereign debt, may help facilitate regulatory cooperation in addressing areas of divergence.[75]

The members and staff of the IASB have indicated on numerous occasions their desire to limit the amount of application guidance and the amount of prescription in standards. In their strategy review, the Trustees of the IFRS Foundation acknowledged that the IASB needs to "establish formalised co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to

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impact of an incorporation of IFRS. The Staff did not engage in an analysis of areas where there is consistent application, nor did it determine the relative amount of inconsistent relative to consistent application. The Staff's identification of diversity in practice was also not intended to imply that local regulators are not concerned about consistency in application across jurisdictions (as opposed to consistency only within the regulator's own jurisdiction).

73 See supra note 69.

74 Comments of Hans Hoogervorst, Remarks at IFRS Foundation/AICPA Conference, Boston (Oct. 2011) (available at: http://www.ifrs.org/NR/rdonlyres/511C82B8-02F4-4E93-93B8-B84534E590C9/0/HHoogervorstBostonOctober2011.pdf).

75 Cf. CII Study (noting, with respect to criterion #2, that the transparency and comparability of IFRS depends on the way in which standards are implemented; that IFRS Foundation Trustees have acknowledged the risk of divergent practices and that they have proposed several steps to address that issue; and that "capital market regulation and enforcement of standards determine the quality of a country's financial reporting at least as strongly as the quality of the accounting standards utilized").

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encourage actions aimed at addressing divergence."[76] These objectives cause tension between having standards that are less prescriptive (often referred to as principle-based) and the amount of diversity one might expect when evaluating how such standards are applied. Once again, this does not necessarily suggest that IFRS is not suitable for incorporation in the United States on this basis alone. However, the Staff has considered carefully the effect that the IASB's objective for less prescriptive standard setting could have on any incorporation of such standards in the United States, including whether it would be desirable or necessary for the FASB, SEC, or others to provide interpretive guidance to minimize diversity among companies filing within the U.S. capital markets.

2. Formal Interpretative Process

The IFRS IC assists the IASB in improving financial reporting through timely identification, discussion, and resolution of financial reporting issues within the framework of IFRSs. Its work is aimed at reaching consensus on the appropriate accounting treatment and providing authoritative interpretations of IFRS. The Staff received feedback indicating, and independently observed, that improvements could be made to the IFRS IC's approach to issuing application guidance. Such improvements could better promote comparability of financial statements prepared in accordance with IFRS and improve consistency in the audit and regulation of those statements and companies issuing those statements. Specifically, commenters to the 2011 May Staff Paper indicated that the IFRS IC would need to become more active in its standard setting to reduce diversity in practice in the application of IFRS and to increase comparability.[77] As one commenter stated:

> We perceive that the IASB has been reluctant to interpret its standards and we encourage the IFRS Interpretations Committee to become more active. While we applaud principle-based standards, principle-only standards are problematic whenever practice interprets the standards differently, and resulting reporting is excessively diverse. In those cases, interpretation/guidance is needed to narrow practice to acceptable levels of diversity.[78]

The Staff further considered the IFRS IC's process in the context of its analysis of the IASB's standard-setting process, as described in section III.G.4.b., below.

D. Auditability and Enforceability

The Work Plan noted that the Staff will gather data concerning the auditability and enforceability of IFRS by:

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[76] Report of the Trustees' Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade, see infra note 121. See also subsection III.C.1. and related footnotes for a discussion of the IFRS Foundation's Trustees' Strategy Review and related findings.

[77] See, e.g., comment letters of Exxon; IBM; and IMA on the 2011 May Staff Paper.

[78] Comment letter of IMA on the 2011 May Staff Paper.

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- Analyzing factors that may influence the auditability of financial statements prepared under, and the enforceability of, IFRS.

- Evaluating factors that may influence the consistent audit of financial statements prepared under, and the enforcement of, IFRS.

- Identifying potential changes to improve the auditability and enforceability of financial statements prepared under IFRS and to facilitate their consistent audit and enforcement.[79]

The Staff performed outreach to audit firms and foreign regulators, met internally with personnel from various Offices and Divisions of the Commission, and researched academic studies and other publicly-available information on global regulatory structures to understand the auditability and enforceability of IFRS. Evaluating the auditability and enforceability of IFRS proved to be one of the most difficult parts of the Work Plan. In part, this was because the Staff has very little direct insight into audits performed of financial statements prepared in accordance with IFRS. The Public Company Accounting Oversight Board ("PCAOB") inspects very few audits of financial statements prepared in accordance with IFRS, such that any results would not be a sufficient sample from which to draw conclusions. Likewise, the Commission has not had sufficient enforcement exposure with individuals or companies that prepared their financial statements using IFRS, so it is difficult to draw any conclusions from actual experience.

Several commenters to the 2011 May Staff Paper noted the need for greater global enforcement of standards, consistency in audits, and international cooperation by regulators for more consistent application of standards.[80] In particular, rigorous enforcement is important to avoid "false comparability: where the requirements of the standards in each jurisdiction are the same but the interpretations and practices are inconsistent."[81] In addition, consistency in interpretation and enforcement pushes interpretations into the open, toward due process, rather than behind closed doors.[82]

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[79] Work Plan.

[80] See comment letters of ABA; CalPERS; CFA; Dell; Deloitte (calling on the SEC to increase efforts to coordinate consultation and monitoring activities with other countries' regulators); Exxon (calling for the Commission to consider the robustness of home country regulatory environments, the development of high-quality global auditing standards, and an active interpretive body); FEI; GM (calling on EITF and IFRS IC to address translation and cultural differences in interpretation and application, and the SEC and IASB to address "short-cuts and noncompliance" not in line with "rigorous application of high-quality standards"); IMA (urging SEC global outreach); KPMG; PwC ("the regulatory and standard-setting mechanisms that would facilitate improved consistency in application are, for the most part, not yet in place or do not yet operate at a sufficiently high level") on the 2011 May Staff Paper.

[81] See comment letter of FEI (expressing hesitation to support "condorsement" absent "significant global development" in infrastructure and calling on the Commission to research the strengths and weaknesses of other global bodies that regulate the enforcement and auditing of IFRS) on the 2011 May Staff Paper.

[82] See comment letters of ABA and Exxon ("false sense of comparability") on the 2011 May Staff Paper.

1. Principles versus Rules

The Staff's research indicates that many assert that IFRS is a more principles-based set of standards than U.S. GAAP. However, others assert that IFRS and U.S. GAAP are equally based on principles but that U.S. GAAP includes more guidance to aid practice in reaching comparable conclusions. Commenters on the 2008 Roadmap stated that IFRS allows for increased flexibility as compared to U.S. GAAP, which may result in standards that are less enforceable—a factor which would not be in the public interest.[83] Other commenters had concerns related to comparability because of inconsistency in application and the impact on auditability. For example, one commenter stated:

> The international standards (IFRS) are widely viewed as less specific and providing less prescriptive guidance than U.S. GAAP (i.e., IFRS are more principles based), as well as more subjective primarily due to more use of fair value measurements. The downgrading of verifiability as a key concept guiding accounting standard setting and the resulting focus on fair value measurement significantly impairs the ability of an auditor to limit opportunistic actions of management and improve financial reporting.[84]

The Staff observes that the difference between principles- and rules-based standards is not always clear. Although U.S. GAAP is perceived by many to be more rules-based, and IFRS to be more principles-based, the Staff finds both sets of standards to be a combination of both approaches. Indeed, the FASB has recently trended toward issuing objectives-based standards that require greater judgment to be exercised in application. Objectives-based standards provide an underlying objective that is supplemented with additional detail to form comprehensive guidance.[85] For example, in 2009, the FASB issued FASB Statement No. 167, *Consolidation of Variable Interest Entities* ("SFAS 167"). This standard, which is less prescriptive than predecessor guidance, requires significant judgment to be applied in determining the primary beneficiary of a variable interest entity. The early experience under SFAS 167 also illustrates that objectives-based standards are not necessarily problematic in their auditability or enforceability. The Staff's initial experience with SFAS 167 indicates that preparers, auditors, and regulators are able to apply and enforce this standard.

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83 See, e.g., comment letter of National Association of State Boards of Accountancy on the 2008 Roadmap.

84 Comment letter of American Accounting Association, Financial Accounting Standards Committee on the 2008 Roadmap.

85 See SEC Office of the Chief Accountant and Office of Economic Analysis, 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 (Jul. 25, 2003) (available at: http://www.sec.gov/news/studies/principlesbasedstand.htm).

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2. Effect of Audit Firm Structure on Comparability[86]

The Staff conducted outreach to six major international public accounting organizations to understand their infrastructure as it relates to the application and interpretation of IFRS.[87] Through this outreach, the Staff sought to further its understanding of processes that the large public accounting organizations currently employ to foster quality and comparability and that could be employed if IFRS were incorporated into the financial reporting system in the near future. Overall, the Staff's outreach indicated that large public accounting organizations could improve processes to facilitate greater cross-border comparability of IFRS.

In general, the IFRS infrastructures of the six accounting organizations with which the Staff met broadly comprise three principal tiers: a senior global policy and leadership group, a core IFRS technical group, and a broader consultation network. The groups generally are engaged in establishing and overseeing the execution of policies, supporting consistent global application of IFRS within the member firms, and fostering consensus on viewpoints. Representatives with whom the Staff met believe that the IFRS infrastructures that are currently in place would generally be suitable for an environment in which IFRS is incorporated into the financial reporting framework for U.S. issuers. However, some organizations indicated that they likely would need to increase the number of IFRS-qualified resources based in the United States to address consultation demands and to maintain a high level of quality in the consultation process.

The Staff was informed by some of the representatives with whom it met that individuals from some or all of the six accounting organizations periodically attend various inter-organization IFRS meetings. The general purpose of the meetings is to share each organization's respective views and perspectives on certain IFRS topics. Similar meetings and discussions occur in the United States where these same organizations discuss issues regarding U.S. standard setting and questions on the application of U.S. GAAP. These meetings help in understanding the viewpoints of the various accounting organizations and, to some extent, the meetings serve as a forum for identifying potential items to be considered by the IFRS IC through its agenda process.

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86 See also section VII of this Final Staff Report.

87 The Staff contacted representatives from the U.S. legal entities of the following six major organizations: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Limited. These accounting organizations worldwide are structured as networks of distinct member firms that share common brand names. The U.S. member firm for each of the respective organizations listed above is as follows: BDO USA, LLP; Deloitte LLP; Ernst & Young U.S. LLP; Grant Thornton LLP; KPMG LLP; and PricewaterhouseCoopers LLP. The extent to which the member firms in each network are integrated (e.g., through common audit methodologies) varies by network. Throughout this Final Staff Report, these accounting organizations (among others) are referred to using different terms. Terms such as "member firms" or "firms" refer generally to individual legal entities that provide professional services to third parties, likely within a country or limited number of countries. Terms such as "organizations" or "networks" refer to broader, and often, global networks of the individual firms.

However, because the largest accounting organizations are structured as networks of independent member firms, member firms develop viewpoints on, for example, a question of IFRS interpretation through voluntary cooperation and consensus-building among the member firms. The absence of a top-down decision-making model creates the possibility that a member firm can reach its own conclusions on accounting for certain transactions while other member firms within the same network reach different conclusions. This approach differs from the approach that the Staff generally understands to be historically employed among large U.S. accounting firms related to the application of U.S. GAAP whereby the conclusion of a firm's national technical accounting group (i.e., the "national office") on U.S. GAAP matters is to be applied consistently (e.g., the Los Angeles field office cannot override or reach differing conclusions than the national office). Thus, it appears that the large accounting organizations could implement more robust control procedures to help ensure that conclusions reached by the core IFRS technical groups are disseminated and followed by each member firm in order to facilitate compliance and foster comparability.

In addition to the Staff's outreach to the largest accounting firms, the Staff also performed outreach to smaller accounting firms. A number of the smaller accounting firms had generally limited exposure to IFRS because the firms had no or few clients currently applying IFRS, and several of the firms are not part of an international network. Some of the firms have provided bas[illegible] training for many of their employees and a small number also have made adv[illegible]ailable. However, a number of the firms that have provided training believe th[illegible]alue of that training may have been lost through deterioration of knowledge in the [illegible]ractical application and due to changes to standards that will have occurred before any incorporation of IFRS in the United States.

[illegible]urther, a number of the smaller firms indicated they do not have their own interpretative [illegible]e. Of those firms that do, most have not updated that guidance for IFRS and have no[illegible]o before a decision is made by the SEC regarding incorporation of IFRS. A minority o[illegible]rms have IFRS resources, such as illustrative financial statements and training materials, available within their networks.

3. Enforcement and Compliance

The Staff's research highlights that accounting standards are not the only factor influencing comparability of financial statements. Other factors, such as the enforcement structure of a jurisdiction, can greatly impact comparability. Many commenters have made similar observations. For example, one commenter stated that "accounting standards are just one factor influencing the degree of comparability reflected in companies' financial reports; other factors such as managers' reporting incentives, regulatory enforcement, and auditing also significantly affect the comparability of financial reports."[88]

Through its outreach, the Staff has determined that enforcement structures around the world differ widely by jurisdiction. For example, certain jurisdictions have a governmental securities regulator, others have a governmental body, and still others are regulated by an

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[88] Comment letter of the FAF on the 2008 Roadmap.

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exchange accountable to a government regulator or by an independent enforcer that is overseen by the government. The structure of the regulator can impact the enforcement mechanisms available.

Limited information exists regarding the current enforcement of accounting standards on a global basis. Through its outreach, the Staff obtained some information regarding the frequency of financial statement reviews and the enforcement mechanisms available. The Staff determined that, in general, regulators maintain some form of financial statement review program, though the frequency of review and the methods of selecting financial statements for review varied greatly. For example, regulators may review financial statements based on a referral, on a periodic schedule or rotation (e.g., every five years), on an assessment of risk, or at random.

Using the member states of the EU as an example, the Staff generally observed the use of periodic and risk-based reviews. Within the EU, ESMA, and previously CESR, has collected and provided information publicly about EU-wide enforcement of IFRS. In one report, CESR noted that a full review was performed on 1,200 companies and a partial review was performed on 900 companies during 2009 (approximately 17% of listed (public) companies in Europe).[89] The partial reviews are generally selected by European regulators for specific accounting topics or industries. Of the 2,100 total reviews, approximately 900, or 43%, resulted in some type of action: 19 restatements, approximately 160 public corrective notices, approximately 560 required corrections in future financial statements, and 170 other, less severe, actions.[90] For 2010, ESMA reported that the numbers of reviewed companies had declined somewhat, with full reviews performed on 1,000 companies (15% of listed (public) companies in Europe) and partial reviews performed on 700 companies (10% of listed (public) companies in Europe). Enforcement numbers varied: restatements and public corrective notices increased over 2009 (with 22 and 220, respectively), while required corrections in future financial statements declined to 380.[91]

By comparison, for the fiscal year ended September 30, 2009, DCF conducted reviews on 4,720 issuers (40% of total issuers), including 370 initial public offering reviews.[92] For the calendar year ended December 31, 2009, there were 674 restatements by 630 issuers,[93] though

[89] See CESR, Activity Report on IFRS enforcement 2009 (Sept. 23, 2010) (available at: http://www.esma.europa.eu/documents/overview/10?title=activity+report+on+IFRS+enforcement&doc_reference=&section=All&doc_type=All&x=0&y=0).

[90] See id.

[91] See ESMA, Activity Report on IFRS Enforcement in 2010 (Oct. 21, 2011) (available at: http://www.esma.europa.eu/documents/overview/10?title=activity+report+on+IFRS+enforcement&doc_reference=&section=All&doc_type=All&x=0&y=0).

[92] See Wayne Carnall et al., Current Developments in the Division of Corporation Finance (Dec. 8, 2009) (slides presented to the AICPA Conference on SEC and PCAOB Developments) (available at: http://www.sec.gov/news/speech/2009/spch120809wc.pdf). Section 408 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") requires the SEC to review the annual report (e.g., Form 10-K or Form 20-F) of an issuer at least once every three years.

[93] See Audit Analytics, 2009 Financial Restatements: A Nine Year Comparison (Feb. 2010).

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this includes both restatements as a result of the DCF reviews and restatements initiated by the issuer or auditor. The Staff was unable to determine how many issuers received a full or partial DCF review and how many of those received 'correct in future filings' comments from DCF during the period, which would be necessary for a valid comparison with the EU enforcement results.[94] For the fiscal year ended September 30, 2010, DCF conducted reviews of 4,575 existing issuers (44% of the total issuers at the beginning of the fiscal year) as well as 935 reviews of new issuers including initial public offerings. For the calendar year ended December 31, 2010, there were 735 restatements by 699 issuers.[95]

The EU and DCF review data illustrates differences in the review practices by a jurisdiction that could give rise to less consistency in the enforcement of IFRS financial statements. The Staff believes that an active review program has improved the comparability and quality of the application of accounting standards—at least within the jurisdiction executing the review program. An active review program can have a greater impact on the consistent application of an accounting standard than the standard itself.[96] The Staff also believes that a robust review program similar to the SEC review program would have a positive impact on the consistency in the enforcement of IFRS globally. That said, however, greater coordination of review programs across jurisdictional boundaries may be necessary to improve global consistency in application.

The Staff conducted an analysis of how any incorporation of IFRS might impact the Commission's enforcement program. The Staff conducted its analysis by reviewing a sample of Commission enforcement actions involving accounting violations and financial fraud during the last several years. The objective was to assess the Commission's ability to have made the accounting allegations and to have filed those enforcement actions (had IFRS been applicable),[97] as well as to assess the potential impact that IFRS may have on enforcement cases.

The Staff estimated that a significant majority of the accounting allegations would have still been brought even if IFRS were previously incorporated into the U.S. financial reporting system. However, it is important to note that the actual effect of incorporating IFRS on the Commission's enforcement regime could be different from the Staff's analysis and will depend on the particular accounting standards involved, facts and circumstances, and quality of the evidence obtained during the investigations.

Separate from any Commission decision to incorporate IFRS, the Boards are continuing or, in some instances, have completed their efforts, to reduce the extent of the specific

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[94] A very rough idea of the volume of "correct in future filings" correspondence may be obtained through a search of EDGAR's full-text database for the term "future filings," which, when filtered for correspondence (CORRESP) and limited to calendar year 2009, yields approximately 4,300 results.

[95] See Audit Analytics, 2010 Financial Restatements: A Ten Year Comparison (May 2011).

[96] See Christian Leuz, Different Approaches to Corporate Reporting Regulation: How Jurisdictions Differ and Why, 40 ACCT. & BUS. RESEARCH 229 (2010).

[97] The Staff considered IFRSs in effect at the time the analysis was performed. The standards applied may have varied from those in effect as of the dates of the alleged violations.

differences between IFRS and U.S. GAAP for the accounting areas subject to the priority Major Joint Projects. Ongoing convergence activities could significantly impact the accounting for revenue, leasing, and financial instruments, among other accounting standards. Assuming the standards are converged when issued, the implications for enforcing compliance with the accounting requirements in these final standards within the U.S. financial reporting system would be expected to be similar irrespective of a decision to incorporate IFRS.

Finally, as discussed in other sections of this Final Staff Report, the method of incorporation could significantly mitigate a number of the concerns that any incorporation of IFRS could have on the Commission's ability to enforce accounting standards. The FASB, in acting as an endorser, could serve an important role to ensure that any standard incorporated into the U.S. financial reporting system is of sufficient quality such that the standard would not adversely impact the Commission's enforcement of the federal securities laws.

4. International and Other Regulatory Bodies

The Staff has identified the following mechanisms that may contribute to more consistent enforcement of IFRS financial statements:

- IOSCO; and
- Regional bodies.

IOSCO is a global body of securities regulators seeking to achieve a common mission of investor protection through collaborative efforts and information sharing among members.[98] With respect to its role in accounting, IOSCO sponsors Committee 1, which focuses on multinational disclosure and accounting issues. To support consistent enforcement of IFRS, Committee 1 activities include sponsoring:

- A database of previous decisions taken by members, allowing other members to browse specific fact patterns and understand the basis for the accounting decision;
- Periodic conference calls with members to address both emerging accounting issues and individual no-name fact patterns; and
- Joint comment letters to the IASB on exposure drafts of IFRS.

In addition to IOSCO, the Staff notes that other regional bodies exist to promote consistent enforcement of IFRS financial statements. Most notable is ESMA, an EU-wide institution designed to promote collaboration and consistency among the individual national securities regulators of EU member states. The creation of ESMA on January 1, 2011 further strengthened the role of an EU-wide securities enforcer within the EU governance structure. In addition, ESMA sponsors the European Enforcers Coordination Session ("EECS") group that is specifically focused on accounting and increasing convergence among enforcement activities in

[98] For additional information, see IOSCO, About IOSCO (available at: http://www.iosco.org/about).

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Europe. In order to promote consistent enforcement of IFRS, the EECS periodically publishes enforcement decisions made by individual member states on a no-name basis. These published decisions are designed to contribute to a consistent application of IFRS in the EU.[99]

In the Asia-Oceanic region, the accounting standard setters formed the Asian-Oceanian Standard-Setters Group ("AOSSG") in 2009. Among its objectives is the promotion of consistent application of IFRSs by jurisdictions in the region.[100] To support this goal to date, AOSSG has held education sessions for members. In the future, AOSSG envisions closer collaboration via committees, conferences calls, databases, or other mechanisms to discuss and disseminate views on accounting matters.

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[99] See ESMA, 11th Extract from the EECS's Database of Enforcement (Aug. 16, 2011) (available at: http://www.esma.europa.eu/page/IFRS-Enforcement-0).

[100] For additional information, see AOSSG, About Us (available at: http://www.aossg.org/about-us).