



## **Staying on Top of the GAAP to IFRS Conversion**

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International Financial Reporting Standards (IFRS) have been at the forefront of discourse for the past several years, as the Securities and Exchange Commission (SEC) continues to bat around the notion of converting U.S. practices over from Generally Accepted Accounting Principles (GAAP). The conversion has been pushed back repeatedly over the past few years as debates continue over the best method of shifting standards. However, there should be no doubt that despite the delay, the change will take place.

Most recently, in May 2011 the SEC released a paper announcing its intention to slow the process of introducing IFRS over a prescribed period of from five to seven years. However, in the meanwhile, more and more international companies are adopting IFRS, and a number of projects are being undertaken to make GAAP more compatible with the international standards. In fact, a recent study undertaken by PricewaterhouseCoopers LLP showed that nearly 50 percent of multinational corporations based in the United States are already either shifting to IFRS or are having to accommodate them in some capacity.

### **What is IFRS?**

IFRS is a set of accounting standards issued by the International Accounting Standards Board (IASB), which claims to be universally applicable to financial reporting operations performed by public companies all over the world. While a significant amount of success has already been achieved in developing a set of uniform standards across the 100 countries that have already adopted them, there is certainly still some debate as to their overall efficacy.

Many critics argue that the IFRS is less effective in creating uniform practices than they claim, as differences due to culture, law, and other factors are inevitable among countries. However, the consensus generally is that GAAP is outdated, and IFRS can improve the quality of financial reporting in the U.S. by providing a more up-to-date, comprehensive set of standards.

### **GAAP and IFRS Convergence**

Perhaps the most notable effort being made in the interim before a complete conversion to IFRS is the meeting of Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to develop a means of improving GAAP and IFRS so that they are more compatible. These efforts will chiefly affect standards relating to leasing, revenue recognition, and financial instruments.

In December 2010, the SEC Deputy Chief Accountant, Paul Beswick, coined the term “condorsement” to refer to measures enacted in pursuit of a middle ground between IFRS and GAAP. Under condorsement the U.S. GAAP will still remain in existence, but the FASB will pursue a new course of action that will, over time, converge current GAAP measures with IFRS. Condorsement seeks to preserve aspects of GAAP not only for ease of use, but also to maintain current quality standards. However, in essence, condorsement ensures that GAAP and IFRS are compatible in the global market as well as consistent in their objectives.

The convergence of GAAP and IFRS is certain to have wide-reaching implications beyond the most immediate effects. In fact, these actions could affect operational and business practices throughout the company, most importantly requiring significant lead time to determine the measures necessary to implement new protocols.

### **Preparing for the Shift**

Despite the lengthy nature of the process, the conversion to IFRS is inevitable. In actuality, it is already happening to a certain extent in different formats. The most important thing at this time is to remain aware of these changes and prepare for anything that might be coming down the road.

The next few years are due to bring a number of significant changes in the field of financial reporting. It is important first and foremost to stay abreast of any announcements made by the SEC and to respond accordingly. This means preparing internally and beginning discussions within the company as to how such matters can best be accommodated.

However, not all changes will be on the scale of a major SEC announcement. Some changes may be subtler, but it is just as important to stay aware of those. Most likely, subsidiaries and counterparties will continue adopting IFRS, and U.S. based, multinational companies will have to learn to navigate their changing standards. Also, converging principles will continue to be instituted, changing the face of financial reporting.

Ideally companies ought to practice scenario planning, in which they consider likely paths and plot alternative plans of action. Similarly, it is wise to consider possible actions in response to movements by the SEC or by subsidiary companies. Another good mode of preparing for the shift to IFRS is to keep informed of any overseas developments, especially in countries where U.S. companies conduct a lot of business. As foreign countries adopt IFRS it will affect practices at home, even as the U.S. continues to delay conversion from GAAP.

### **In Summary**

The conversion to IFRS is on its way. Even though the SEC has delayed the movement from GAAP to IFRS, it is due to happen within the next few years, and companies need to be prepared. Following are the most important steps in ensuring your company is ready to face the move to IFRS:

- Monitor SEC activities. Keep informed of any announcements made on the subject and be prepared to respond accordingly.
- Monitor practices overseas. Ensure that you are aware of which overseas markets have adopted IFRS and adjust your internal practices accordingly. This is especially important if the overseas country in question is one in which your company conducts a significant amount of business.
- Practice scenario planning. This means considering all the possible options and planning for those outcomes. Among the potentialities that ought to be included are various SEC pathways toward conversion, convergence alternatives, and subsidiary IFRS adoption.

Los Angeles executives with current internal resources fully committed may want to consider engaging with an outsourced provider of CFO support services. An outside expert may often have a more comprehensive knowledge of the field and may be better able to advise your company on how to navigate the conversion to IFRS.

## References and Further Reading

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