



SEAN T. LAGER, PARTNER
FRAZIER & DEETER, LLC
a licensed member of PKF International



Accountants &
business advisers

INSIDE THIS ISSUE

- 1 Be IN THE LOOP
- 1 International Financial Reporting Standards in the United States
- 4 IFRS Financial Reporting Update
- 6 Global Financial Reporting News

Be IN THE LOOP on International Financial Reporting Standards Around the Globe

Welcome to the inaugural edition of "In the Loop." This publication is a brief quarterly summary on current events related to International Financial Reporting Standards around the world. The world is quickly moving to a single set of high quality accounting and financial reporting standards known as IFRS. The key to successful adoption and implementation is timely communication, education and training. This publication serves to keep its users "in the loop" on current events related to IFRS. For more information, you should contact a PKF IFRS representative or the author of this publication.

International Financial Reporting Standards in the United States

The SEC Drops the Reconciliation Requirement for Foreign Private Issuers

On December 21, 2007, the Securities and Exchange Commission published a final rule accepting financial statements prepared in accordance with IFRS (foreign private issuers) when meeting certain criteria, which are as follows:

- the foreign private issuer files its financial statements in full compliance with IFRS as issued by the IASB;
- the foreign private issuer, in a prominent footnote to its financial statements, states that its financial statements are in compliance with IFRS as issued by the IASB; and
- the foreign private issuer's independent auditor opines in its report that the financial statements are in compliance with IFRS as issued by the IASB.

The rule became effective on March 4, 2008 for filers with fiscal years ending after November 15, 2007. Issuers filing before the effective date are subject to the current U.S. GAAP reconciliation requirement. However, filers that wish to file their Form 20-F prior to March 4, 2008 and want to omit the USGAAP reconciliation requirement should contact the SEC to discuss their particular circumstance as the SEC does not wish to discourage companies from filing their form 20-F prior to March 4, 2008.

The SEC Issues a Concept Release for U.S. Issuers to Report Under IFRS

On July 25, 2007, the SEC voted unanimously to publish a Concept Release for public comment on allowing U.S. issuers, including investment companies, to prepare their financial statements using IFRS. More discussions on allowing domestic filers to report under IFRS are included later in this publication.



“Doing business abroad is no longer just the province of large, multinational companies. It’s now commonplace for almost everyone...”

*-Christopher Cox
SEC Chairman*

SEC Chairman Cox Speaks Out on IFRS in the U.S.

Christopher Cox, Chairman of the SEC, recently spoke at the AICPA International Symposium and noted “It’s no wonder that global accounting, auditing, and tax issues are at the forefront of your agenda today, because ***doing business abroad is no longer just the province of large, multinational companies. It’s now commonplace for almost everyone*** — for businesses and consumers of all kinds and sizes.”

SEC hosts roundtables on IFRS

In December 2007, the SEC hosted two roundtable discussions on the possible use of IFRS in the U.S. The roundtables were held as a result of (1) the SEC issuing a Concept Release on allowing U.S. domestic issuers to file their financial statements in accordance with IFRS and (2) the SEC dropping the U.S. GAAP reconciliation requirement for foreign private issuers reporting under IFRS. Amongst other things, practical issues were addressed in allowing domestic issuers to file under IFRS. The discussions were addressed from a U.S. market perspective as well as a global market perspective.

There seemed to be a general consensus from the participants that moving to a single set of high-quality global accounting and financial reporting standards would be desirable; however, there were differing views on how to get there. Most of the participants seemed to favor a mandatory date of transition to IFRS but there were differing views on whether or not the SEC should give filers the option to transition to IFRS before that date. Although the participants did not give a realistic time frame for adoption, it was noted that there should be enough time for educators, accountants, auditors and regulators to transition to IFRS. There were also discussions on how to transition domestic filers to IFRS, such as requiring a phase-in approach which would require larger U.S. companies to transition to IFRS which would be followed by smaller companies.

The SEC is currently reviewing the comment letters and the results of the discussion held at the roundtables and could possibly issue a formal proposal for U.S. issuers to file under IFRS as early as mid 2008. Some sources think that the option to file under IFRS could come as soon as 2010.

The SEC Proposes Certain Amendments for Foreign Issuers

The SEC is proposing to accelerate the reporting deadline for annual reports filed on Form 20-F by foreign private issuers from six months to 90 days for accelerated filers and 120 days after year-end for all other issuers, with a possible two year transition period.

The FASB Comments on the SEC Concept Release on U.S. Issuers Reporting Under IFRS

The Financial Accounting Foundation and the Financial Accounting Standards Board commented on the SEC’s concept release on allowing domestic filers to file their financial statements in accordance with IFRS. The following points were noted in the response letter:



- “Investors would be better served if ***all U.S. public companies used accounting standards promulgated by a single global standard*** setter as the basis for preparing their financial reports. This would be best accomplished by moving U.S. public companies to an improved version of International Financial Reporting Standards (IFRS). We believe permitting extended periods of choice between U.S. Generally Accepted Accounting Principles (GAAP) and ***IFRS results in a two-GAAP system that creates unnecessary complexity for investors and other users of financial information.*** Permitting choice would add to the overall complexity of our reporting system.”
- ***“We, the SEC, and other affected parties should work together to develop a transition plan or “blueprint” for moving U.S. public companies to IFRS.***
- “The SEC should seek international cooperation to identify and implement changes we believe are necessary to sustain the IASB and to secure it as the independent global body that establishes high-quality international accounting standards.”

Transitioning to IFRS would be a complex endeavor in the U.S. as the move would be a transition from a rules-based approach (predominately) to a principles-based approach. Constituents in the U.S. who apply U.S. GAAP to their financial statements would need guidance in how to apply a principles-based approach rather than a specific rule in determining how to measure and report transactions and events in the underlying financial statements.

The FASB will host an IFRS Forum

The FASB will host a forum entitled High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting on June 16, 2008 at Baruch College in New York City. The purpose is for the FASB to discuss how the FASB may/will continue to move the United States toward high-quality global accounting standards (i.e. IFRS). Panelists will include users of financial statements, representatives of small and large companies both public and private, auditors, regulators and educators.. The Forum will also be webcast live on FASB’s website. To register, or for more information visit www.fasb.org.

The FASB and the IASB plan to update and complete their MOU

An agenda paper for the joint meeting of the IASB and the FASB in April 2008 proposes a plan for completion of a number of projects that are part of the convergence agenda set out by the two boards in their Memorandum of Understanding (MOU) issued in February 2006. The goal of the agenda paper is to note the improvements to existing IFRS that will help in facilitating the mandatory adoption of IFRS in the world’s major capital markets which would include the United States. The proposed adoption would be no later than 2013. If the plan is agreed to by the two boards, an updated MOU will be published which will outline, among other things, updated project timetables and possible changes in priorities for the two boards.



The AICPA gears up for IFRS in the U.S.

The American Institute of Certified Public Accountants (AICPA) has launched a new website to keep its members informed about IFRS. The website includes a history of convergence, a high-level overview of the differences between IFRS and U.S. GAAP, frequently asked questions, articles, textbooks and CPE courses, and links to other information. The website is **www.IFRS.com**.

The AICPA has issued a position to comment due July 31, 2008 to add IFRS to the CPA exam. In addition, the AICPA is seeking volunteers to serve on a committee it has formed to assist its members as the U.S. considers a transition to IFRS.

The AICPA has designated the IASB as the global standard setter and allows its members to report under IFRS in lieu of U.S. GAAP, without reconciliation. The AICPA Council has amended Ethics Rules 202 and 203, providing AICPA members with the option to use International Financial Reporting Standards (IFRS) without any need to reconcile to U.S. GAAP. The ARSC and the Audit Standards board are going to address reporting issues related to compilation, review and audits of financial statements reported under IFRS.

IFRS Financial Reporting Update

IASB and IFRIC Issues New Standards and Proposed Guidance Business Combinations and Noncontrolling Ownership Interests

The IASB has published its revisions to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements. The revised standard and amendments are effective for annual periods beginning on or after July 1, 2009. Earlier application is permitted but only back to an annual reporting period that begins on or after June 30, 2007. Some of the more significant changes are as follows:

- Accounting for acquisition costs
- Accounting for contingent consideration
- Goodwill and noncontrolling interest
- Pre-existing relationships and reacquired rights
- Step acquisitions

The U.S. Financial Accounting Standards Board issued its converged business combinations standards, SFAS 141(R) in December 2007. Even though the business combinations project was a convergence between the FASB and the IASB, some differences still remain. The most significant difference is the FASB requiring (rather than an elective option, as is in the new IFRS 3) the full goodwill method (i.e. requiring minority interest to be recorded at fair value).

The IASB and FASB issue two Conceptual Framework proposals

The two boards issue their respective consultative documents on two of the eight phases of the conceptual framework project. The two documents discuss the following:

- Concept of reporting entity
- Objectives and qualitative characteristics

The conceptual framework project seeks to improve the foundation of financial reporting and developing accounting and reporting standards.



IASB Amends IFRS 2 on Share-Based Payments (vesting conditions and cancellations)

The IASB has amended IFRS 2 Share-based Payment to clarify the terms “vesting conditions” and “cancellations.” The amendment is effective for annual periods beginning on or after January 1, 2009, with earlier application permitted.

IASB issues an ED on Group Cash Settled Share Based Payment Transactions

The ED would amend IFRS 2 Share-based Payments and IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. The ED provides guidance on how an entity receiving goods or services from a supplier should account for the following transactions:

Arrangement No. 1 – the entity’s supplier will receive cash payments that are linked to the price of the equity instruments of the entity.

Arrangement No. 2 – the entity’s supplier will receive cash payments that are linked to the price of the equity instruments of the entity’s parent.

Under both arrangements, the cash payments are the obligation of the entity’s parent. The deadline for comment was March 17, 2008.

IASB amends IAS 32 Financial Instruments and IAS 1 Presentation of Financial Statements related to puttable instruments and obligations arising from liquidation

Currently under IAS 32, if an issuer is required to pay cash or another financial asset to redeem shares in order to redeem or repurchase a financial instrument, the instrument is classified as a liability. Under the amended guidance, some financial instruments that currently meet the definition of a financial liability would be classified as equity if they represent the last residual interest of the net assets of the entity. The amended guidance provides certain criteria in identifying such instruments. The IASB also amended IAS 1 to require additional disclosures for the puttable instruments and obligations arising from liquidation.

IASB issues a Discussion Paper (DP) on Financial Instruments with Characteristics of Equity

Per the IASB press release, *the goal of the discussion paper is to solicit the views of interested parties on whether the proposals in the FASB document are a suitable starting point for the IASB’s deliberations.* The FASB led the project and published a Preliminary Views (PV) document **Financial Instruments with Characteristics of Equity** in November 2007. The PV document discusses the FASB’s preferred “basic ownership” approach. According to FASB member Tom Linsmeier, “the basic ownership approach would represent a major change to current accounting and reporting.” The basic ownership approach limits equity to the lowest level of residual interest. The PV document discusses two other approaches which are the ownership-settlement approach and the reassessed expected outcomes approach. The ED contains two parts, the FASB’s PV document and the IASB’s invitation to comment. Comments on the DP are due September 2008.



IFRIC Proposes Guidance on Distributions of Non-cash Assets to Owners

The International Financial Reporting Interpretations Committee (IFRIC) has released draft Interpretation D23 Distributions of Non-cash Assets to Owners. IFRIC D23 would apply to all types of distributions of non-cash assets with the exception of distributions of non-cash assets to another entity within a consolidated group. Generally, D23 proposes that if an entity incurs an obligation to distribute non-cash assets to owners (i.e. a dividend payable), the obligation should be recorded at fair value. When the entity settles the obligation, the difference between the carrying value of the assets distributed and the obligation should be recognized in profit or loss. The deadline for comment was April 25, 2008.

IFRIC Proposes Guidance on Accounting for Customer Contributions

IFRIC has released an exposure draft (D24) on Customer Contributions. D24 defines customer contributions as an "access provider" (term defined by D24) receiving an asset which is used to provide an ongoing service or goods to a customer. The asset received can include cash which must be used to acquire or construct the service or goods. As a result, D24 proposes that access providers are required to recognize contributed assets and revenue from providing the goods services over a specific period. Comments on D24 were due April 25, 2008.

Global Financial Reporting News

The European Union Drops Reconciliation Requirement

The EU announced in early January that foreign-based companies doing business in the EU no longer have to reconcile their financial statements to EU standards. The new regulation takes effect in 2009 and compliments the SEC dropping the reconciliation requirement for foreign private issuers. The new rule will apply only to those countries that are on the path to converging with IFRS by 2011.

Sir David Tweedie Interview with Accountancymagazine.com

David Tweedie was recently interviewed by Accountancymagazine.com and discussed his thoughts on the IASB's progress in 2007 and looks ahead to 2008. It was noted that the 108th country "signed up" for IFRS in 2007 and there are many more lining up, such as Canada, Israel, Japan and Chile. Tweedie hopes that the U.S. will be on board by 2011. Tweedie notes that "Getting rid of [U.S.] reconciliation has been 'our absolute priority, the reason being that so many countries are willing to sign up to IFRS if they can get access to the US markets without one. It's something this organization and its predecessor [the International Accounting Standards Committee] have been working at for 12 years.'

The successes of the IASB do not come without its criticisms, including some from the European Union and some of its constituents noting the complexities of adopting and applying IFRS. However, Accountancymagazine.com notes that "The recent ICAEW study of IFRS compliance conducted at the behest of the European Commission found widespread agreement that IFRS has made financial statements easier to compare across countries, across competitors within the same industry, and across industry sectors".

According to Tweedie, the adoption of IFRS in the EU has gone well and the predicted disasters simply did not happen. Furthermore, the markets have more information than they ever have before.

Tweedie also defended the issuance of IFRS 8 Segment Reporting which caught a lot of criticism by the EU for adopting the U.S. standard which was seen as "U.S. GAAP coming." Tweedie notes that the U.S standard was popular with analysts as there was more informative disclosure in the notes to the financial statements as well as added efficiencies for management since users don't have to run separate systems for segments.



*For more information on this publication, its contents, or related matters, you may contact Sean Lager at :
sean.lager@frazierdeeter.com
or 1.404.253.7578*

While all reasonable care has been taken in the preparation of this publication, no responsibility is accepted by Frazier & Deeter, LLC for any errors it may contain, whether caused by negligence or otherwise, or for any loss, howsoever caused, to any person or organization acting or refraining from acting as a result of use of the information contained in this publication. Nor does Frazier & Deeter, LLC make any representations or warranties, express or implied, about the accuracy or timeliness or completeness of the information. Any reproduction or distribution should not be made without the express written consent of Frazier & Deeter, LLC.

Finally, the difficulties of communication with stakeholders on a global basis is an area Tweedie says is complex, but the IASB has improved. It is very difficult to communicate with 108 countries at four meetings a year, claims Tweedie. In addition, it is hard to determine “who to communicate with” and who represents what in some countries.

One of the biggest threats to global reporting is “brand issue,” notes Tweedie. You have countries claiming they have adopted IFRS, but have made significant changes and are not truly reporting under a full set of IFRS. One example is the EU’s adoption of IAS 39 “carve out.” So, Tweedie says for auditors to “call it what it really is and leave their name out of it”.

International Accounting Standards Committee Foundation (IASCF) Makes New Proposals to Structure

As a part of the IASCF Constitution review (the IASB operates under the IASCF), in November 2007, the IASCF made a proposal to develop a monitoring body over the IASCF which would include responsibilities such as reviewing Trustee oversight activities, approving Trustee appointments, and review adequacy of funding arrangements. The proposal was jointly endorsed by the U.S. Securities and Exchange Commission, the European Commission, the International Organization of Securities Commissions, and the Financial Services Agency of Japan. In January of 2008, further proposals included a gradual expansion of the IASB to 16 board members (from 12) and an extended consultation process on other Constitutional matters. In February 2008, the Trustees announced that they plan to fast-track the proposal considerations to expand the Board and develop a monitoring group.

IFRS Global Adoption Update

Canada – The Canadian Accounting Standards Board has officially announced that IFRS will be required for publicly accountable for-profit enterprises by 2011. IFRS will replace the current Canadian GAAP for those companies. The official date for transition will be for interim and annual financial statements for annual periods beginning on or after January 1, 2011. IFRS will not be required but will be permitted for private companies.

Argentina – Argentina’s professional accountancy body (The Federacion Argentina de Consejos Profesionales de Ciencias Economicas) has outlined a plan to adopt IFRS for publicly traded companies by the first quarter of 2011. The plan is subject to approval by the Argentinean Securities Commission.

Israel – IFRS is now required for listed companies and are permitted for unlisted companies (as an alternative to Israeli GAAP).

Korea – the Korea Accounting Institute and the Korean Financial Supervisory Commission recently announced a plan for adopting a Korean equivalent to IFRS (K-IFRS). Beginning in 2011, listed companies will be required to report their annual financial statements in accordance with K-IFRS. Unlisted companies will also be allowed to report under K-IFRS.

Fiji – Beginning January 1, 2007 the Fiji Institute of Accountants (FIA) adopted IFRS for eight categories of entities and allows an exemption for small entities, as defined.