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The Latest on IFRS Convergence
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For ten years, the IASB and FASB have been working to converge International Financial Reporting Standards (IFRS) and US GAAP. The end may finally be in sight.

However, it's probably not how anyone expected the process would turn out...

In December 2011, the respective chairs of the FASB and IASB jointly announced that neither board wished to continue with their current convergence efforts beyond 2013. Simply, things were taking too long, and despite the best efforts of everyone involved, differences between the two accounting frameworks sometimes just could not be reconciled.

However, many financial statement users, preparers, and even regulators believe in the benefits of having a single set of global accounting standards.

For this reason, convergence will likely be achieved – just not as a result of the joint efforts of both boards.

Instead, the Securities and Exchange Commission appears poised to recommend a phased methodology towards IFRS adoption colloquially known as “condorsement”. Under this approach, the FASB would gradually integrate specific aspects of IFRS into US GAAP over a transition period lasting, say, five to seven years.

Once this process is complete, an issuer that prepares US GAAP accounts should also be able to represent that those financials comply with IFRS as well.

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The FAF – the not-for-profit foundation that oversees the FASB – envisions condorsement working as follows:

1. During 2012 and likely into 2013 as well, the FASB and IASB will complete its remaining active convergence projects on revenue recognition, lease accounting, insurance contracts, and financial instruments.
2. Thereafter, the US would look to the IASB to set new accounting standards. The FASB would still participate in that process by issuing comment letters on draft IFRS proposals, providing research support, or helping in other ways as appropriate. By remaining involved, the FASB hopes to be in a position to endorse any final IFRS standards for incorporation into US GAAP.
3. For areas that the IASB is not planning to address through future standard setting efforts, the FASB would evaluate the remaining differences between US GAAP and IFRS, and develop a plan to address them.
4. In the future, the FASB would retain the ability to set standards for the US if there are topics of considerable importance that are not on the IASB's active agenda or if the IASB doesn't provide timely or adequate implementation guidance.

What does this all mean? We suspect that following condorsement, the FASB would become a de facto "mini-SEC", deciding what new IFRS contents should be integrated into US GAAP and whether supplemental interpretative guidelines are required for US companies. For the most part, the FASB would get out of the standard setting business and the EITF would likely be eliminated altogether.

The SEC has hinted that a final decision around condorsement is "a few months away". Stay tuned for more details!

Please contact Mind the GAAP if you would like to learn more about our US GAAP and IFRS services.

*In January 2012, the Canadian practice of PricewaterhouseCoopers issued the **Financial Reporting Release** entitled, "Keeping Your Head Above Water... Recent Issues in Financial Reporting".*

<http://www.pwc.com/ca/en/financial-reporting/release/2012-january.jhtml>

This well-written (and quite amusing) paper highlights some of the practical issues Canada faced when it replaced its own accounting regulations with IFRS. It may be interesting reading considering that the US may soon move towards adopting a good deal of IFRS in a relatively short period of time.

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