

## IFRS: What You Need to Know Now

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June, 2010

There's been quite the industry buzz over an impending move to replace our country's longstanding accounting practices. The debate involves our Generally Accepted Accounting Principles (GAAP)—the gold standard here in the U.S.—and a decision on whether to drop them in favor of the practices used by many countries around the world—the International Financial Reporting Standards (IFRS).

Heard of it? Most companies have, but few understand the implications of adoption or what it could mean to their businesses.

Whether the IFRS will become fully adopted here in the U.S. remains to be determined. While the Financial Accounting Standards Board (FASB), Securities Exchange Commission (SEC), and those in the CPA profession continue to consider the move, it's important that U.S. companies large and small, public and private, develop a basic understanding of IFRS in preparation for the possibility.

To help, here's an IFRS primer, along with the latest information on adoption developments.

**What:** IFRS are a set of accounting standards developed by the International Accounting Standards Board (IASB). They are fast becoming the global standard for the preparation of public company financial statements.

Since 2002, the U.S. has been considering adoption and has worked with international accounting standard professionals to minimize differences between GAAP and IFRS. The movement toward adoption slowed significantly in 2008 and 2009 as the U.S. grappled with the global financial crisis. Recently, the questions over adoption resumed, and conversations continue to evolve.

**Where:** The international standards are currently used in roughly 120 nations around the world. Canada is expected to transition to IFRS by 2011, while Mexico will require IFRS for all listed companies beginning in 2012.

**Who:** Several multinational, public companies in the U.S. have started using IFRS for their foreign subsidiaries, while some U.S. subsidiaries of foreign-owned companies are also using IFRS. In both cases, these companies must continue to also prepare their financial statements under GAAP for now. If IFRS is adopted in the U.S., it may be required only for public companies, but any company, private or otherwise, could also make the move to IFRS.

**Why:** Having a common accounting language that's shared worldwide makes it easier to compare and analyze financial information. IFRS may also offer other advantages that include a simpler, principle-based approach rather than a rule-based one. This allows greater room for interpretation and flexibility. In addition, some preparers believe IFRS provides a more favorable picture of a company's finances.

**When:** The likelihood and timing of U.S. adoption of IFRS have been speculated for several years, and the conversation has gone through many changes along the way.

In February 2010, the SEC reaffirmed its support for a single set of high-quality, globally accepted accounting standards. It also emphasized the importance of converging GAAP and IFRS and said it would continue its consideration of incorporating IFRS into the U.S. financial reporting system.

The SEC is now developing a work plan for possible IFRS adoption and will maintain a 2011 vote on whether to move ahead with a mandate to use IFRS. Its work plan envisions 2015 as the earliest possible date for required IFRS use by U.S. public companies, not the 2014 date previously supported.

Any decision by the SEC will not have a direct impact on the financial reporting requirements of private companies. However, once public companies have fully switched over to IFRS, private companies will need to be prepared for the changes that inevitably will follow.

**What's next:** Again, there is no certain date for—and no certainty of—adoption. The FASB and SEC continue to earnestly consider adoption, implications, and the impact of IFRS on companies of all sizes.

Despite the uncertainty, CPAs on both the preparer and audit side of financial statements continue to ready for the possibility. And starting next year, CPA exams will incorporate testing on IFRS.

Here at Wipfli, we've experienced IFRS firsthand by assisting several enterprises with the transition and IFRS reporting of financial statements when companies were acquired by foreign entities. We continue to monitor developments and are preparing for the time when the SEC could designate either the voluntary or mandatory adoption of IFRS.

### About the Author

With nearly 20 years of experience advising clients on financial and business issues, Kurt has worked with a number of international clients providing him real-world experience with IFRS. He currently serves as a firm resource and can be reached at [kgresens@wipfli.com](mailto:kgresens@wipfli.com).

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