

IFRS: Public or Private Company - a U.S. perspective

What does it mean to you?

What were you doing in 2005? If you were running a public company in the European Union in 2005, you were adopting the International Financial Reporting Standards (IFRS) for your consolidated financial statements.

Today more than 100 countries require or permit the use of IFRS with others expected to follow in the next couple of years. More than 12,000 companies are implementing the standards. IFRS was established in 2001 and currently consists of 29 International Accounting Standards (IAS) and eight IFRS along with 29 Interpretations.

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Generally accepted accounting principles in the United States (US GAAP) – often termed 'rules-based' – has governed financial statement presentation for many years through volumes of broad guidelines for general application as well as detailed practices and procedures. In contrast, IFRS is referred to as 'principles-based' with no industry-specific rules and little implementation guidance. Regulators, investors, large companies and auditing firms are realizing the importance of having common global financial accounting and reporting standards to increase comparability between companies and improve the efficiency of conducting business in a cross-border economy.

What financial reporting standards are required by the Securities and Exchange Commission (SEC) in the US? The answer depends on whether you are a foreign registrant or a US registrant. Foreign registrants use US GAAP or domestic GAAP (which includes IFRS) as the basis for their financial reporting standards. US issuers are awaiting a final decision by the SEC on whether they are required to adopt IFRS and when. While discussion and momentum on the topic at the SEC has declined, a decision is still expected in 2011. IFRS is expected to be phased-in in the United States as follows:

- 2014 financial statements: large accelerated filers
- 2015 financial statements: accelerated filers
- 2016 financial statements: remaining filers

IFRS must be adopted in an annual filing. The financial statement requirements under IFRS are similar to that of US GAAP; present two years of comparatives, including the first IFRS financial statements. US registrants with calendar year ends would convert to IFRS as of 1 January 2012. If a US registrant meets certain criteria – such as one of the 20 largest companies in its industry based on market capitalization – it may voluntarily adopt IFRS for 2009 year-end reporting.

It may come as a surprise that some US private companies currently use IFRS for financial reporting purposes, primarily as a result of having a foreign parent, investor or venture partner that uses it. Private companies are not required to apply a particular basis of accounting for financial statement presentation. Although, reporting has historically followed the method used by US public companies.

One key differentiating factor in financial reporting between public and private companies is that the users and the areas of emphasis of private company financial statements may differ from that of a public company. The International Accounting Standards Board (IASB) recognized this and issued "IFRS for small and medium-sized entities" (SME) in July 2009. IFRS for SMEs is a tailored, simplified version. Private companies have four options for financial reporting – US GAAP, other comprehensive basis of accounting (OCBOA), full IFRS or IFRS for SMEs.

The issuance of IFRS for SMEs does not necessarily mean that all private companies will change their basis for financial reporting. Private entities are also challenged with understanding the differences between IFRS for SMEs and US GAAP; whether the financial statement users are willing to accept financial statements prepared under IFRS for SMEs; the impact on taxes and tax planning strategies and the impact on financial reporting metrics. The reporting burden is reduced by limiting the revisions to IFRS to once every three years for SMEs. Comprehensive training material, a technical comparison between IFRS for SMEs and US GAAP as well as topical Continuing Professional Education (CPE) courses will soon be available.

One of the differences identified when comparing IFRS and US GAAP is that IFRS does not permit the use of Last-In, First-Out (LIFO) for inventory valuation and depreciation based on asset components. Additionally, under US GAAP the probability threshold for contingent liabilities is generally greater than 70%, while under IFRS it is 50% with the use of a 'more likely than not' concept.

The IASB and US Financial Accounting Standards Board (FASB) continue to strive for convergence on accounting issues. The two governing bodies continue to work to reach a consensus on topics such as revenue recognition, fair value, income taxes and pension and post retirement plans.

You will find various online resources available to help keep you informed, understand and implement IFRS. Some suggestions include:

- www.rehmann.com
- <http://go.iasb.org/IFRSforSMEs> - for the complete guidance, illustrative financial statements, a presentation and a disclosure checklist
- www.ifrs.org
- www.aicpa.org
- www.fasb.org

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IFRS for SMEs

Following from the IASB's publication in July 2009 of the IFRS for SMEs, the International Accounting Standards Committee Foundation has now published the first 12 modules of its comprehensive set of learning materials for the IFRS for SMEs. There will be one module for each of the 35 sections in the IFRS for SMEs, and the remaining 23 modules are planned for release in the next few months. Each module is one PDF file and can be downloaded without charge from the IASCF/IASB Website:

- <http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>
(home page for IFRS for SMEs where you can download without charge the IFRS for SMEs, Basis of Conclusions and the Illustrative Guidance consisting of example financial statements and a disclosure checklist)
- <http://www.iasb.org/IFRS+for+SMEs/Training+material.htm>
(link to the learning materials)

Each learning module includes the following:

- Introduction - an overview of the module, including:
 - Learning objectives - a description of the capabilities and competences that the learner should attain by successfully completing the module.
 - The IFRS for SMEs and the material that accompanies, but does not form part of, the IFRS.
 - An overview of the requirements of the section, i.e. a brief technical summary.
- Requirements - the full text of the section of the IFRS for SMEs with added notes and worked examples. The notes and examples are designed to clarify and illustrate the requirements.

- Significant estimates and other judgements - a discussion of significant estimates and other judgements in accounting for transactions and events in accordance with that section of the IFRS for SMEs.
- Comparison with full IFRSs - a summary of the main differences between this section of the IFRS for SMEs and the corresponding full IFRS.
- Test your knowledge - a collection of multiple-choice questions (with answers) designed to test the learner's knowledge of the requirements of this particular section of the IFRS for SMEs.
- Apply your knowledge - a collection of case studies (with solutions) designed to develop the learner's ability to account for transactions and events in accordance with this particular section of the IFRS for SMEs.

Currently available modules cover Sections 1, 3, 4, 5, 8, 10, 13, 16, 17, 24, 25 and 32 of the IFRS for SMEs:

<http://www.iasb.org/IFRS+for+SMEs/Training+modules.htm>.

Additional modules are expected to be added in due course.

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