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SEC Proposes Roadmap Regarding Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards

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Introduction

On Friday, November 14, 2008, the Securities and Exchange Commission ("SEC") released its potential "roadmap" to require U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") rather than U.S. Generally Accepted Accounting Principals ("GAAP"). The overarching goal of the SEC's proposal is to eventually allow investors to seamlessly compare the financial statements of U.S. companies with those of non-U.S. companies through the application of a single set of high-quality global accounting standards. Pursuant to the proposal, the SEC would adopt rules by 2011 governing the use of IFRS by U.S. issuers. The conclusive decision to adopt IFRS will be based on following the roadmap, which is broken down into seven "milestones" which serve as factors that the SEC considers vital to achieving its stated goal.

What Is IFRS?

IFRS is a set of accounting standards and interpretations regulated by the International Accounting Standards Board ("IASB"), based in London, England. Currently, approximately 113 countries around the world require or permit IFRS reporting for domestic, listed companies. Canada, Australia, Member States of the European Union, and Israel have adopted IFRS for various reasons, including ensuring consistency and comparability of financial reporting across global financial markets.[1] The SEC already allows foreign

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private issuers to file financial statements prepared in accordance with IFRS.[2]

While GAAP is a rules-based system intended to provide instruction on how to deal with financial contingencies, IFRS are principles-based standards that give broader accounting guidelines as well as dictate some specific treatments and offer a framework for composition of financial statements. Critics of IFRS point out that its principles-based methodology leaves many gray areas open to interpretation for accountants. Still, wide mandating and adoption of IFRS by other countries has made U.S. GAAP the global outlier, and U.S. corporate finance regulators such as the Financial Accounting Standards Board ("FASB") and the SEC now recognize that the potential benefits to U.S. investors of converting to IFRS outweigh the costs associated with such conversion. Adopting IFRS will allow investors to compare companies around the world without concern for accounting disparities, which will, in turn, expand the global investor pool and international financing.

How the Transition From GAAP to IFRS Will Be Achieved

The following information sets forth the seven milestones listed in the SEC's roadmap. Satisfaction of each milestone is required before IFRS can be used as the accounting standard in SEC filings.

1. Improvements in Accounting Standards

The FASB and the IASB must continue to pursue a set of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting.[3] The FASB and the IASB will continue to work under an updated timetable pursuant to their 2006 Memorandum of Understanding that ends in 2011. The SEC will monitor the progress of the FASB and the IASB, particularly in regard to improving areas where IFRS offers limited guidance on a particular topic and in creating accounting standards, such as revenue recognition and financial statement presentation, that, when completed, would improve financial reporting in such areas under IFRS.[4]

2. Implementation of the Use of IFRS by U.S. Issuers

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The SEC proposes that implementation of the use of IFRS by U.S. issuers would be staggered into three phases based on the size of the reporting company. IFRS filings for large accelerated filers would begin for those filers with fiscal years ending on or after December 15, 2014, while IFRS filings for accelerated filers would be begin for those filers with fiscal years ending on or after December 15, 2015, and for non-accelerated filers and smaller reporting companies for those filers with fiscal years ending on or after December 15, 2016.

This staggered transition would help manage the demands of auditors and consultants assisting U.S. issuers with IFRS reporting. The SEC contemplates that newly public companies, which have non-accelerated filer status until after their first year of reporting, would report using IFRS prior to the mandatory phase-in date for non-accelerated filers. The SEC has not yet determined whether rules related to mandatory filing dates would provide for voluntary "early" use of IFRS and has stated that it will make such determination based upon progress along the roadmap and after considering investor protection and capital formation factors.

3. Limited Early Use of IFRS

The SEC proposes allowing a limited number of U.S. issuers to file financial statements using IFRS prior to the mandated adoption dates for all other U.S. issuers. A U.S. issuer will qualify for early, voluntary filing using IFRS if it is among the 20 largest companies globally in a particular industry and if IFRS is used as the basis of financial reporting more often than any other basis of financial reporting among the 20 largest listed companies worldwide in that industry. In these industries that are currently IFRS dominant, U.S. investors would benefit greatly from the enhanced ability to compare investment opportunities.

U.S. issuers that qualify for early use of IFRS could begin filing financial statements prepared in accordance with IFRS in 2010, as long as each issuer first obtains a letter of no objection from the SEC. The SEC estimates that a minimum of

110 U.S. issuers presently would be eligible to file IFRS financial statements and that such companies had, as of December 2007, a total market capitalization of $2.5 trillion.

4. Anticipated Timing of Future Rulemaking

In 2011, the SEC will decide whether to proceed with the rules that will require U.S. issuers to file financial statements in accordance with IFRS beginning, for large accelerated filers, with the 2014 year-end financial statements. Adoption of the new SEC rules in 2011 would give U.S. issuers sufficient notice of the transition to IFRS to permit them to begin internal accounting using IFRS in 2012, the year that would be the earliest fiscal year covered under the earliest anticipated phase-in dates for IFRS. The SEC would require that financial statements prepared in accordance with IFRS be for three prior years, meaning that U.S. issuers would need to begin using IFRS in 2012 and continue to simultaneously use GAAP to prepare alternative statements through 2014, when the issuer would switch entirely to IFRS reporting.

The use of IFRS would be mandatory. The SEC stated in its proposal that requiring only an elective use of IFRS would lead to long-term dual accounting standards, GAAP and IFRS, which would, among other problems, limit the ability of investors to compare financial information of U.S. issuers.

5. Other Required Milestones

Accountability and Funding of the IASC Foundation. As an additional milestone on the roadmap, the SEC will consider the degree to which the International Accounting Standards Committee Foundation ("IASC Foundation") has a secure, stable funding mechanism that permits it to function independently and that enhances the IASB's standard-setting process.[5] The IASC Foundation has developed a scheme for 2008 to obtain funding through broad-based, compelling (meaning, subject to certain requirements to prevent free riding), open-ended and country-specific means. The IASC Foundation's success in achieving both targeted contribution levels and maintaining its independence from donors will carry considerable weight for the SEC. The SEC will also require that the IASC Foundation agree to oversight by national securities regulators through amendments to the IASC Foundation's constitution that will establish a Monitoring Group composed of securities authorities charged with governing the IASC Foundation.

Improvement in the Ability to Use Interactive Data for IFRS Reporting.In May 2008, the SEC issued a proposal that would require all issuers to provide company financial statements in an interactive data format regardless of what accounting method is used by the issuer.[6] If such proposal is adopted by the SEC, U.S. issuers would have to be capable of providing IFRS financial statements to the SEC in interactive data format at a greater level of detail than is currently available, and an IFRS list of tags would need to be developed for interactive data reporting for IFRS. The state of such development is a factor the SEC will weigh when considering how to proceed with the new rules for U.S. issuers to adopt IFRS.

Education and Training. Finally, prior to adopting rules to institute the use of IFRS, the SEC will take into account the status of the training and education of investors, preparers, auditors and others in preparing financial statements in accordance with IFRS. The benefits of a single set of high-quality globally accepted accounting standards can only be realized if investors fully understand the basis for results presented using IFRS. Groups other than investors who would require education and training using IFRS include certified public accountants, actuaries and valuation experts, in addition to the staff of the SEC, the Public Company Accounting Oversight Board, the FASB and its parent, the Financial Accounting Foundation. Universities and colleges, professional organizations and training groups, and the Uniform CPA Examination would all have to integrate IFRS into their exams and teaching and training materials.

IFRS Today

As experts analyze the differences between GAAP and IFRS and the processes for transitioning hundreds of corporations' financial accounting systems, U.S. issuers will continue to discover the costs and complexities of creating a high-quality, universal standard of accounting. Of the 113 countries that currently require or permit IFRS reporting, many different jurisdictions have unique internal processes through which they incorporate IFRS that may result in discrepancies from IFRS as issued by the IASB.[7] An additional goal of the SEC's roadmap is to consider whether IFRS is truly a globally accepted set of standards that are consistently applied.

The SEC's proposed roadmap is open for comment by the public until February 19, 2009. If the roadmap is adopted, the SEC will publish it in its Codification of Financial Reporting Policies.[8]

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[1] The market capitalization of the E.U., Australia and Israel totals $11 trillion, which equates to 26% of global market capitalization.

[2] See SEC Release No. 33-8879 (December 21, 2007).

[3] The FASB and the IASB first announced their efforts to achieve such standards in the Norwalk Agreement of 2002 and reiterated their commitment to such efforts in a 2006 Memorandum of Understanding.

[4] High-quality accounting standards consist of a set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors. See "SEC Concept Release: International Accounting Standards," Release No. 33-7801 (February 16, 2000).

[5] The IASC Foundation oversees the IASB and has financed IASB operations through voluntary contributions from market participants in several countries. Market participants include accounting firms, companies, central banks and governments.

[6] Reviewing financials in an interactive data format will be useful to investors because they can download the interactive financials directly to spreadsheets and analyze them in a variety of ways using off-the-shelf commercial software.

[7] However, the SEC requires that foreign private issuers file financial statements in accordance with ISFR as issued by the IASB. Foreign private issuers using any variation to IASB's ISFR are required to reconcile their financial statements with U.S. GAAP.

[8] Currently, the roadmap to adoption of IFRS does not include adoption by investment companies under the Investment Company Act of 1940 or

reports filed by certain regulated entities, such as registered broker-dealers.

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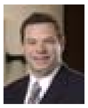

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