

The Deloitte logo, consisting of the word "Deloitte" in a white, sans-serif font with a small green dot at the end of the word. The background of the slide is a dark blue globe with a grid of latitude and longitude lines.

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# Overview of the Global Financial Reporting Environment

Deloitte/FSA Faculty Consortium  
May 18, 2006

D.J. Gannon, Partner  
Deloitte & Touche LLP

Audit • Tax • Consulting • Financial Advisory.

# Agenda

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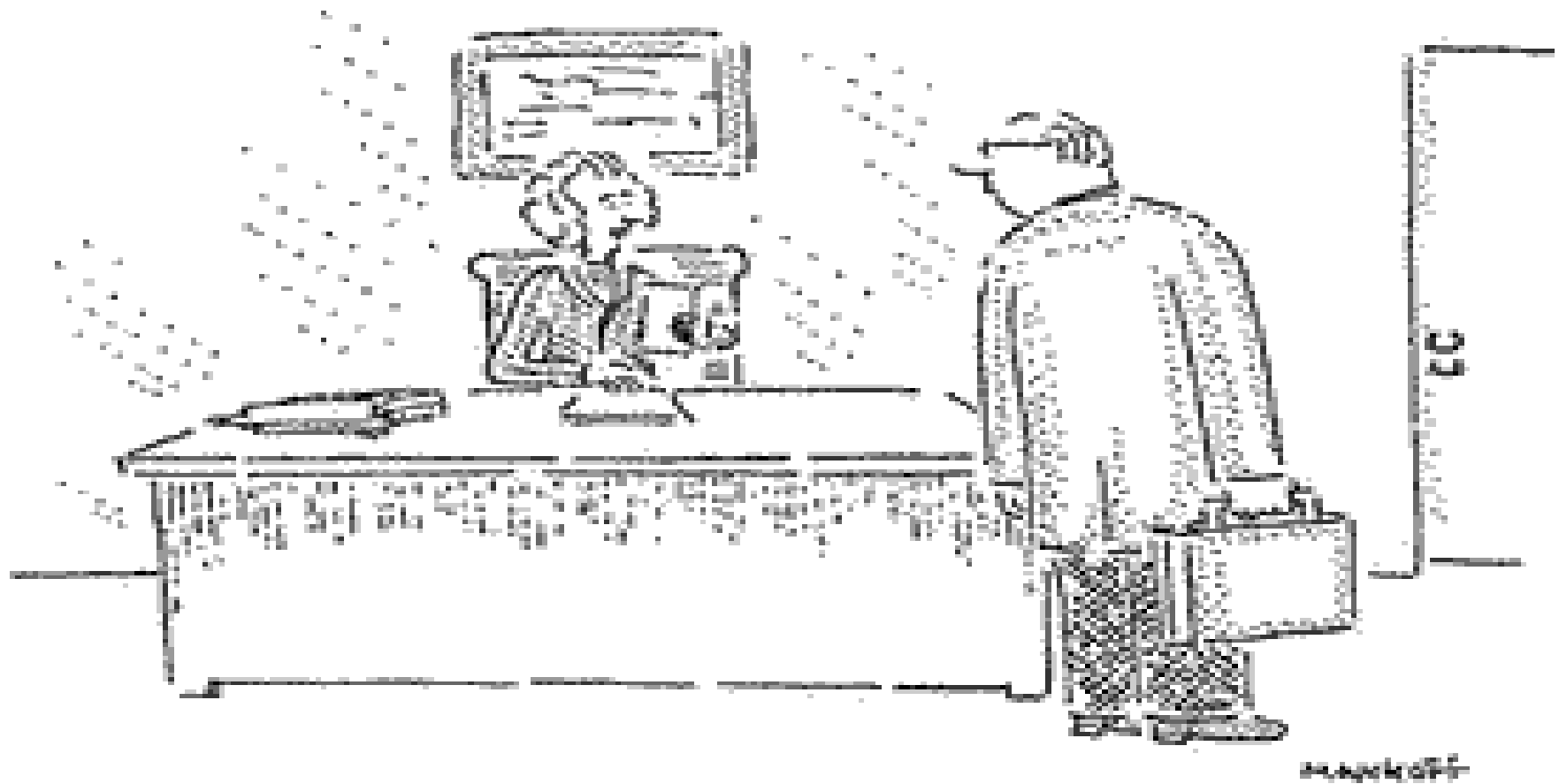
- New Realities
- Elements of the financial reporting environment
- Development of IFRS
- IFRS/US GAAP convergence efforts
- IFRS resources
- Final thoughts

# New Realities

"A paradigm shift in approach to accounting and financial reporting."



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**"Sir, the following paradigm shifts occurred while you were out."**

# A Paradigm Shift

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- A new perspective on financial reporting
  - Focus on “transparency” of financial information and disclosures
- General movement toward global standards
  - Consensus on the use of a “principle-based” approach
- Shift in how standards are developed, written and applied
  - Will involve a new way of thinking about accounting and financial reporting

# Events Leading to a Paradigm Shift

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- Continued globalization of the world's capital markets
  - Steady increase in cross-border activities
- Calls for common standards
  - Elimination of compliance with multiple standards
- Transparency issues
  - Asian financial crisis
  - Various company reporting failures
- Other events
  - Introduction of the Euro

# New Realities

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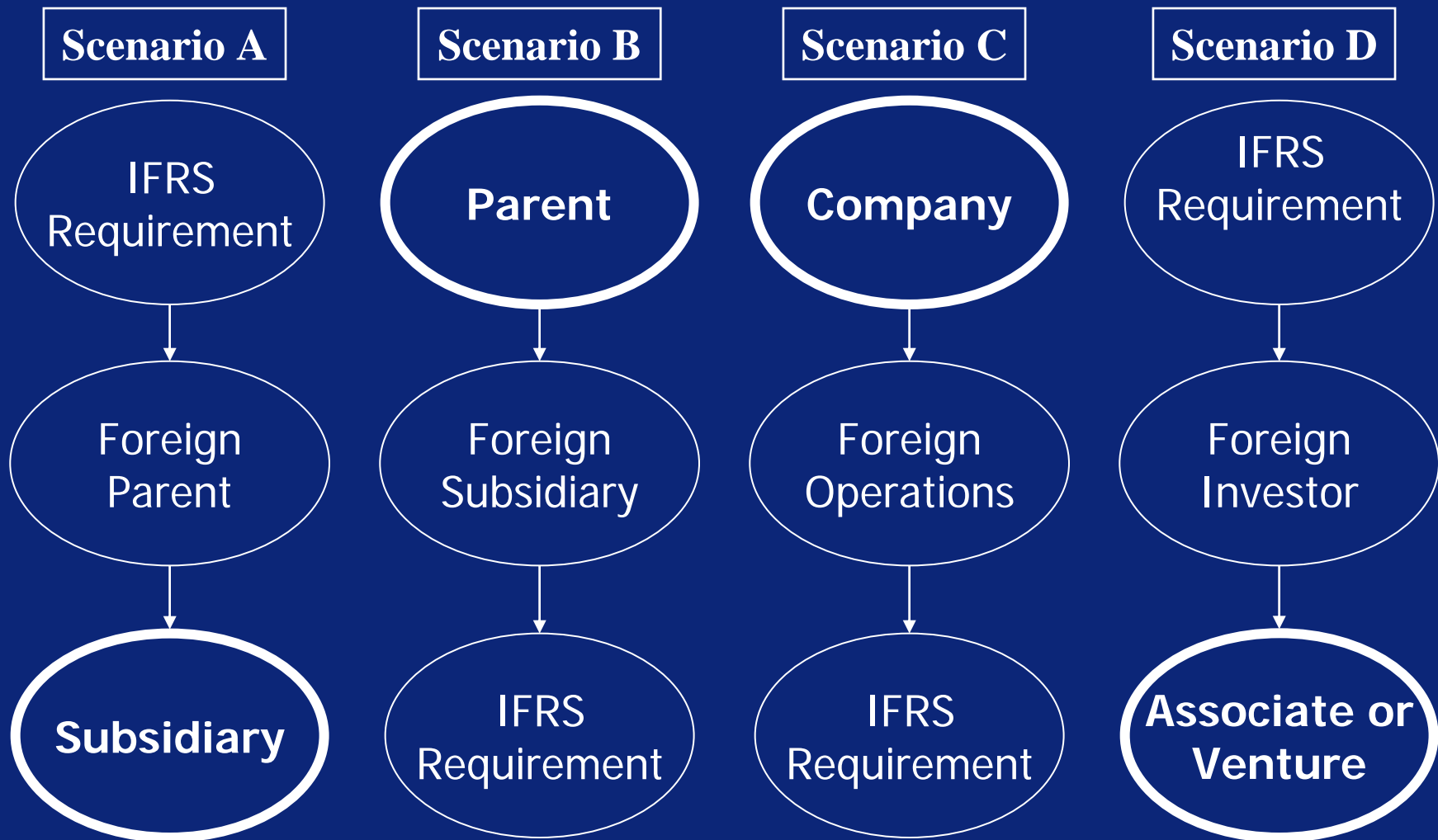
- Trend towards required use of IFRS for reporting purposes
  - Public listing requirements
  - Statutory reporting
  - Other reporting
- Convergence efforts
  - Local GAAP is moving to or toward IFRS
- Result is an increasing need for IFRS expertise

# Movement Toward IFRS

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- European Union requirements
  - Must comply with IFRS beginning January 1, 2005
  - Optional exemptions
  - Impact on statutory reporting
  - Must assess each Member State individually
- Increasing use not limited to Europe
  - Africa
  - Asia-Pacific
  - Americas
- Reach extends beyond parent company

# IFRS Reporting Requirements



# Impact of Adopting IFRS

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- “Culture” shock
- Conversion to IFRS may “reveal” new issues
- Other impacts
  - Reporting metrics
  - Debt covenants
  - Tax implications
  - Financial reporting systems
  - Internal controls over financial reporting
- Overall, transparency of global company reporting should increase

# IFRS Implementation

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- Global versus local perspective
- Interpretation versus application
- How to interpret?
  - “Originalist”
  - “Texturalist”
  - “Historical”
- Presentation formats
- Practices will evolve over time

# Elements of the Financial Reporting Environment

"Revolution is impossible until it is inevitable."

The background of the slide is a blue-tinted image. It features a map of the Beaufort Sea and Arctic Ocean region, with labels such as "BEAUFORT SEA", "ARCTIC OCEAN", and "DOMINION". A wooden gavel is resting on the map, positioned diagonally across the lower half of the slide.

# Not Just About “Accounting”

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- Effective, independent standard-setters...
- High-quality auditing standards...
- Audit firms with effective quality controls worldwide...
- Profession-wide quality assurance...
- Active regulatory oversight.

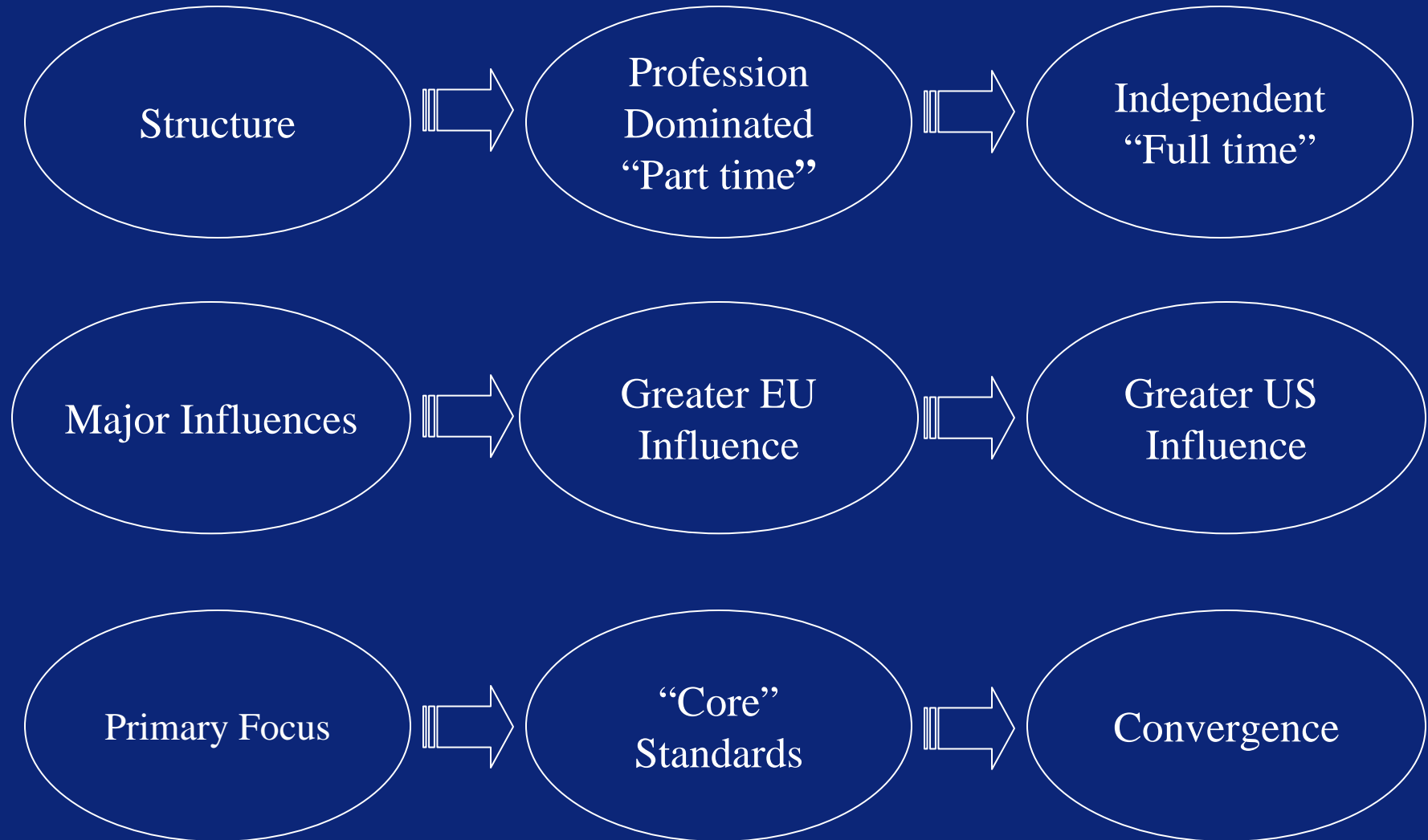
# Major Global Standard-Setters

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- International Accounting Standards Board
- International Public Sector Accounting Standards Board
- International Auditing and Assurance Standards Board
- International Ethics Standards Board for Accountants

# Evolution of the IASC(B)

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# National Standard-Setters

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- Will have a direct “liaison” with their global counterparts
- Common agendas
- Focus on convergence of standards
- Move from innovator to implementer
- “Tailoring” of global standards to national environments

# International Standards on Auditing

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- Established by the IAASB
- Due process
- Steering Committees
- Consultative Advisory Group
- Recent topics addressed
  - Fraud
  - Audit planning and documentation
  - Quality control standards

# Global Accounting Profession

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- International Federation of Accountants – IFAC
  - Member bodies
  - Standard-setting activities
- Forum of Firms
  - Transnational Audit Committee
- Public Interest Oversight Board
  - Oversees all of IFAC's "public interest" activities

# Regulatory Oversight

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- Regulatory “convergence”
  - Increased cooperation among regulators
  - IOSCO “core principles”
  - “Equivalence” of approach
- Greater consultation on rulemaking efforts
  - Oversight of accounting firms
  - Auditor independence
- IOSCO project on enforcement of IFRS

# Regulatory Developments in US

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- Public Company Accounting Oversight Board
  - PCAOB Release on oversight of foreign accounting firms
- SOX rulemaking is complete and effective
  - Impact on global regulatory environment
- SEC rulemaking relating to foreign issuers
  - Deferral of SOX 404
  - SEC Release on first-time adoption of IFRS
  - Delisting proposal

# Other SEC Activities

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- Significant increase in resources
- Reviews of filings every three years
  - Includes foreign issuers
- Increased scrutiny of IFRS application
- SEC “Roadmap”
  - Potential elimination of the US GAAP reconciliation

# Regulatory Developments in the EU

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- Endorsement of IFRS
- Prospectus and Transparency Directives
- EU equivalence initiative
  - US, Canadian and Japanese GAAP
  - Would require additional disclosures on certain items
  - Decision has been deferred - originally expected to be effective January 1, 2007
- New directive on audit of company accounts

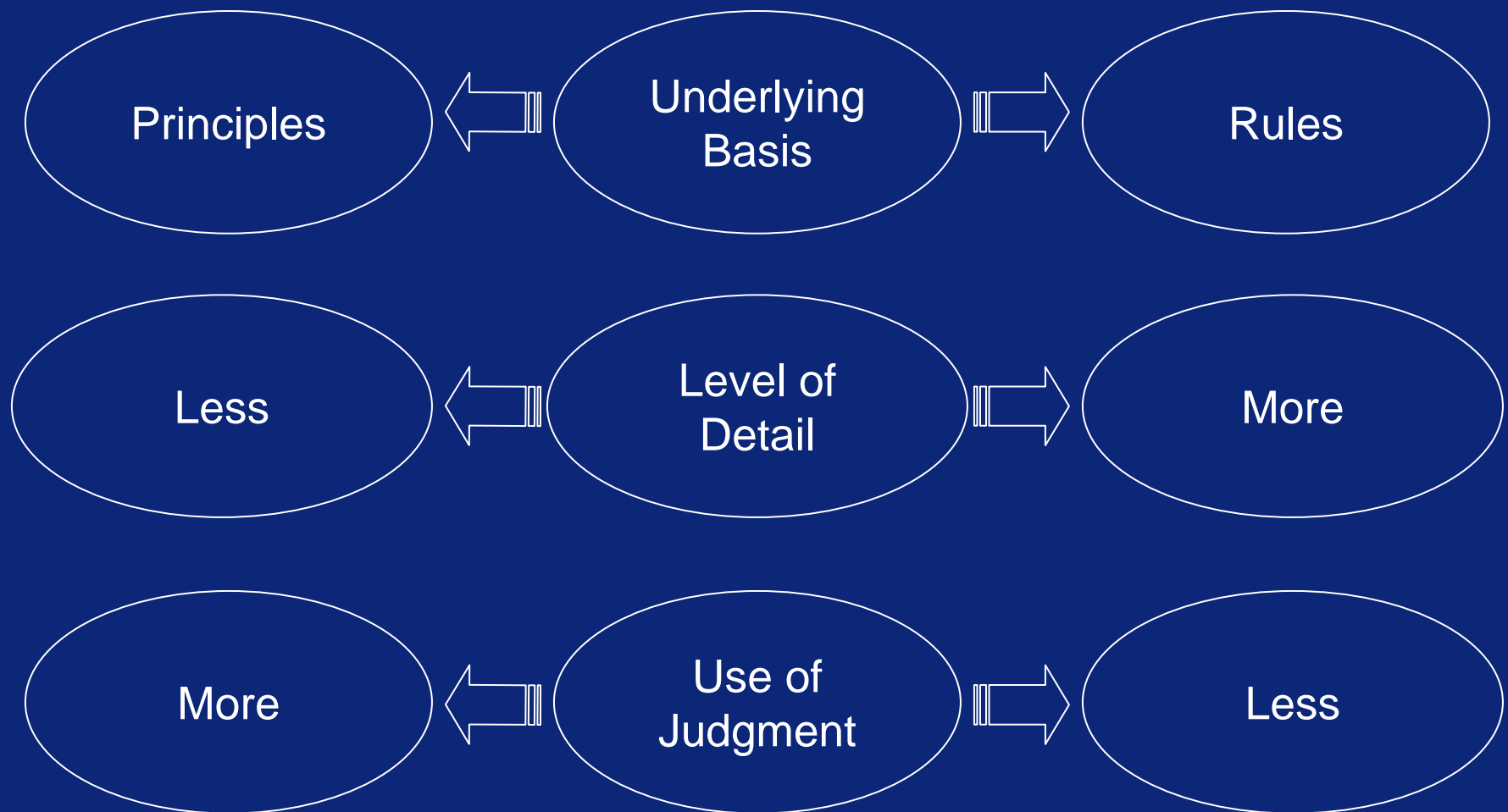
# Development of International Financial Reporting Standards

"Rules aren't necessarily sacred, principles are."



# "Principles" Versus "Rules"

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# “Principle-based” Standards

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- Articulate underlying objective
- Provide necessary guidance to make operational and consistent application
- Broad applicability
- Limit arbitrary “bright lines”
- Limit alternative treatments
- Simplify, simplify, simplify

# A “Principle-based” Approach

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- No longer simply understanding the “rules”
- Accountants will need to...
  - Assess the “substance” of transactions
  - Evaluate whether the accounting presentation reflects the “economic reality”
- Renewed focus on use of professional judgment
- Comparability versus uniformity

# IFRS/US GAAP Convergence Efforts

“To converge or not to converge.”



# The “Norwalk Agreement”

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- Significant step forward
- IASB and FASB agree to
  - Work together to eliminate differences between IFRS and US GAAP
  - Coordinate future work programs
- Involves several “convergence” projects
- Encourage coordination of interpretive bodies
- Recent amendments

# Some Thoughts on Convergence

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- The beginning of a process
- Involves having a new perspective
- Same words, same meaning
- Need to find the “right” level of “implementation guidance”
- Involves input from all market participants

# Convergence Projects

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- “Short-term” convergence projects
  - Initiatives where US GAAP converges with IFRS
  - Initiatives where IFRS converges with US GAAP
  - Joint FASB/IASB initiatives
- “Active” agenda projects
- “Research” agenda projects

# IFRS Resources

“Knowledge is key.”



# Deloitte IFRS Resources

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- IASPLUS ([www.IASplus.com](http://www.IASplus.com))
- e-Learning modules
- Model IFRS financial statements
- IFRS compliance and disclosure checklists
- Other Deloitte publications
  - “IFRS in your pocket”
  - “Key Differences Between IFRS and US GAAP ”
  - Guides to individual standards

# IASB Resources

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- Web site ([www.iasb.org](http://www.iasb.org))
- IASB bound volume
- "IASB Insight" (quarterly)
- "IASB Update" (after Board meetings)
- "News from the IFRIC" (after IFRIC meetings)

# Final Thoughts

"All good things must come to an end."



# Final Thoughts

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- New way of thinking about accounting and financial reporting
  - Focus on “transparency” of reporting
  - General trend toward “principles”
- Renewed focus on problem solving skills and economics
  - Look to “spirit” of principle applied
  - Does the accounting make sense? Does it reflect the underlying substance? Is it consistent with similar transactions?
  - Need to understand “fair value” determinations

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