

 **CORPORATE WAVELENGTH**
The Corporate Governance, Risk, and Compliance Web Series

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International Financial Reporting Standards: What U.S. Companies Should Know

Mark Plichta
Foley & Lardner LLP

John Wozniak
Motorola, Inc.

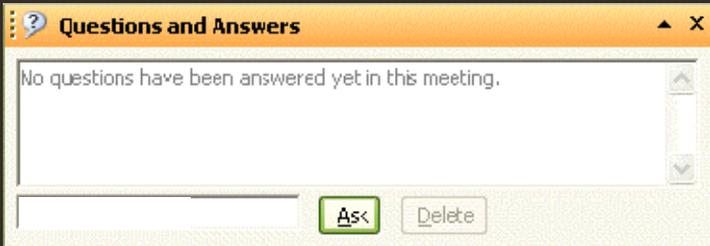
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- Enter your question into the text area and click Ask.



- The presenter will address your question shortly.

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Today's Speakers

Mark Plichta
Partner, Foley & Lardner LLP

- Member of Foley's Transactional & Securities Practice
- Practice focused on the areas of mergers and acquisitions, securities law, and general corporate business law
- Has represented corporate issuers and underwriters in various public offerings and private placements of both debt and equity securities
- Also regularly counsels publicly held companies regarding compliance matters under federal and state securities laws

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Today's Speakers

John Wozniak
Vice President and Assistant Controller of Motorola, Inc.

- Responsible for the preparation of Motorola's financial statements and periodic SEC filings, global accounting policies and corporate accounting functions
- Joined Motorola in 2002 and has held various positions including Director of External Reporting and Accounting Policy and International Controller for the Home and Networks segment of Motorola
- Currently a representative for Motorola on the Committee on Corporate Reporting of FEI (Financial Executives International)

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Today's Moderator

Brendan Sheehan
Executive Editor, *Corporate Secretary*

- Editorial mission: To provide innovative and insightful analysis for corporate secretaries, general counsel and compliance officers
- *Corporate Secretary* is the leading source of information on matters relating to the SEC, Sarbanes-Oxley, D&O insurance, shareholder communications, proxy solicitation and voting, director education and compensation, listing requirements and entity management

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SEC's IFRS Adoption Roadmap

- On August 27, the SEC announced a roadmap for transitioning U.S. issuers to International Financial Reporting Standards (IFRS)
- Certain details have been provided by SEC staff, but there is no proposing release

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Roadmap Adoption Details

- Three years of audited financial statements in the year of IFRS adoption
- Two options for converting to IFRS
 - One-time reconciliation from GAAP to IFRS covering the transition year appearing as a note to the financial statements
 - On-going annual unaudited reconciliation from IFRS to GAAP covering the three years of IFRS financial statements in each 10-K

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Roadmap Timeline

- Early adoption as early as year end of 2009
- The SEC will decide in 2011 whether adoption is in the public interest and beneficial to investors
- The determination will be made based on certain milestones

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Roadmap Timeline (continued)

- Milestones
 - Improvements in accounting standards
 - Accountability and funding of the IASCF
 - Improvements in the ability to use interactive data for IFRS reporting (XBRL)
 - Education and training in the U.S. relating to IFRS
 - Experience with the limited early use of IFRS in the U.S.
 - Timing of future SEC rulemaking

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Roadmap Timeline (continued)

- If approved, transition would begin in 2014
 - Full adoption by all public companies in 2014, or
 - Staggered adoption
 - Large accelerated filers required to file IFRS in 2014
 - Accelerated filers in 2015
 - Non-accelerated filers in 2016

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Benefits of Adopting IFRS

- Enhanced comparability with international peer companies
- In theory, a principles-based approach would be better than a rules-based approach

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IFRS Benefits (continued)

- Efficiencies and reduced costs
 - Consistency with statutory financial statements would reduce preparation and audit costs
 - There would be opportunities to centralize and reduce or eliminate redundant national/regional accounting functions
- Improved internal controls

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Issues With Adopting IFRS

- The SEC may change its mind
 - There will soon be a change in administration
 - Congress may not want to defer to an international body to determine U.S. GAAP, especially in light of the current market environment
 - SFAS 157 and IAS 39 controversy
- The SEC has a history of delays with this type of project

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Issues (continued)

- A principles-based approach could lead to second-guessing management's judgment
 - Perception that current practice by auditors and regulators in evaluating judgments does not provide an environment in which such judgments may be generally respected
 - Potential increased litigation risk
 - CIFR recommendations
- Lack of IFRS accounting expertise in U.S.

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Early Adoption

- Issuers should carefully consider before adopting early
- Issuers need to apply to the SEC
 - Issuer must be among 20 largest public companies in its industry on a global basis; and
 - IFRS is used more often than any other basis of accounting by those 20 largest public companies in that industry as measured by market capitalization on a global basis
 - U.S. issuer would self assess eligibility and obtain a letter of no objection from the SEC Division of Corporation Finance

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Polling Question #1

Is your company considering early adoption?

- A) Yes
- B) No
- C) Depends on what our industry peers are doing

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Preparing for Possible Adoption

- Issuers should establish a multi-disciplinary team/committee
 - Accounting/Reporting
 - Treasury
 - Tax
 - Information technology
 - Legal

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Polling Question #2

Has your company established or considered establishing an IFRS adoption team?

- A) Yes
- B) No

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Preparing (continued)

- Hire an accounting firm to identify key differences between IFRS and U.S. GAAP for the company
- Two approaches for establishing the company's new IFRS compliant policies
 - Start over from a blank sheet of paper
 - Generally keep the existing accounting policies, modifying as necessary to conform to IFRS

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Preparing (continued)

- Do not allow local management in each country to set their own policies
 - Consistency issues
 - Tax issues
- Revise systems to accommodate IFRS (e.g., new general ledger accounts)
- Run two sets of books in parallel
 - Will need comparative historical information under IFRS when adopting

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Preparing (continued)

- Key roles for lawyers during adoption process
 - Working with accountants to revise form customer and vendor contracts
 - IFRS offers less revenue recognition guidance
 - If applicable, coordinating tax and regulatory issues
 - In some jurisdictions book must equal tax (e.g., LIFO)

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Preparing (continued)

- Reviewing financial covenants in debt documents
 - Would IFRS be “generally accepted in the U.S.”?
 - U.S. GAAP as of the date of the agreement
 - U.S. GAAP as amended from time to time
 - U.S. GAAP as amended from time to time, but negotiate in good faith to arrive at same economic effect
- Reviewing financial metrics in compensation and benefits agreements
- Considering impact on public disclosures close to the time of adoption

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Examples of Key Differences Between IFRS & GAAP

- Key differences are company/industry specific
 - Revenue recognition
 - Accounting for contingencies
 - SFAS 5 amendment is currently on hold
 - LIFO inventory valuation method not allowed under IFRS
 - Under the Internal Revenue Code, companies adopting IFRS would no longer be eligible for LIFO valuation

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Polling Question #3

Assuming no change in the Internal Revenue Code, would a LIFO prohibition make you less likely to adopt IFRS?

- A) Less likely
- B) No change in likelihood of adoption
- C) Not a factor for our company

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Key Differences (continued)

- Business combination standards
 - SFAS 141(R) and IFRS 3
 - Joint project
 - SFAS 157 requires fair value to be determined based on price that would be received for an asset
 - Trade names



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Thank you for your participation

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