

Client Advisory

SEC Reaffirms Commitment to Convergence with International Financial Reporting Standards

Implications for Employers' Accounting for Compensation and Benefits

Today the Securities and Exchange Commission (SEC) unanimously approved a Policy Statement in support of the convergence of U.S. Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS). This Policy Statement outlines a Work Plan to address “whether, when, and how” convergence with IFRS should occur and identifies criteria that will be fundamental to making future policy decisions.

A decision on whether to require publicly held companies in the U.S. to adopt IFRS is expected to be made in 2011. In the meantime, the SEC indicated that adoption of IFRS by publicly held companies in the U.S. is not permitted.

The commitment to convergence with IFRS — whether or not accompanied by a requirement to adopt IFRS — means that U.S. companies should be familiar with the differences between U.S. GAAP and IFRS and the implications of changes on the horizon.

Under IFRS, employee benefits are accounted for under IAS 19, which is similar in many respects to U.S. GAAP. But there are some significant differences:

- Under IAS 19, the balance sheet reflects an accrued liability or prepaid asset that represents the funded status of the plan, net of unrecognized past service cost/credit and unrecognized gains/losses. In addition, IAS 19 places a limit on the asset that can be recognized on the balance sheet for an overfunded plan; U.S. GAAP has no such limit.
- The cost of plan changes must be recognized much more rapidly (immediately for vested benefits) under IAS 19 than under U.S. GAAP.
- In addition to immediate recognition or amortization of gains and losses through P&L, similar to U.S. GAAP, IAS 19 provides a third alternative — immediate recognition of gains and losses through other comprehensive income (OCI), *without future recycling through P&L*.
- Assets are valued at fair value for all purposes (i.e., asset smoothing is not permitted) under IAS 19.

[A more comprehensive comparison of IAS 19 with U.S. GAAP can be found here.](#)

Note, however, that the IASB expects to propose substantial changes to IAS 19. The proposed changes are expected to include:

- Replacing interest cost and the expected return on plan assets with a measure of net interest income or expense, measured by applying the discount rate to the plan surplus or deficit
- Requiring immediate recognition of gains and losses through OCI
- Immediate recognition through P&L of the cost of plan changes for both vested and nonvested benefits (versus amortization of the cost of nonvested benefits under the current rule)
- Prescribing how changes in the benefit obligation and fair value of plan assets are to be reported in the comprehensive income statement
- Enhanced disclosures, especially related to risks and sensitivities

The IASB's current timetable calls for issuing an Exposure Draft of the proposed changes to IAS 19 in late March 2010, with a final amendment to the standard expected to be issued in mid-2011 (with a January 1, 2013 effective date). IAS 19, as revised for the final changes, would therefore apply for entities adopting IFRS in 2013 and beyond. It is therefore critically important that U.S. registrants consider the likely changes to IAS 19 in assessing the effect of adopting IFRS. [A more detailed summary of the contemplated changes to IAS 19 can be found here.](#)

In addition to the accounting differences for employee benefits, there are some differences in the accounting for stock-based compensation between U.S. GAAP and IFRS. While U.S. GAAP and IFRS (IFRS 2) are similar for the most part, there are some noteworthy differences with respect to scope, timing of recognition, deferred tax effects, and the accounting for certain types of award modifications and employee stock purchase plans. We'll be publishing an article in the next few days providing a more comprehensive description of these differences.

[The SEC's press release can be found here.](#)

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