Testimony of

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International Accounting Standards: Opportunities, Challenges and Global Convergence

FORMAL STATEMENT

The FASB

The Financial Accounting Standards Board ("FASB") is an independent, private-sector organization. Its mission is to establish and improve standards of financial accounting and reporting for both public and private enterprises, including small businesses and not-for-profit organizations. Those standards are essential to the efficient functioning and operation of the U.S. capital markets because investors, creditors, and other consumers of financial reports rely heavily on sound, honest, and unbiased financial information to make rational resource allocation decisions.

The FASB's process for establishing standards involves extensive due process that includes consultation with all key participants of the financial reporting system. As part of that due process, we listen carefully to the views expressed by investors and other capital providers, the companies that prepare financial statements, the firms that audit those financial statements, and governmental bodies. However, our funding source (as dictated by the Sarbanes-Oxley Act[1]) and governance mechanisms provide us the independence that is essential to ensuring the integrity of the standards we produce and the neutrality of the financial information that companies provide by applying those standards.

The FASB's independence, the importance of which was reaffirmed by the Sarbanes-Oxley Act, is fundamental to our mission because our standards are the basis entities use

[1] Public Company Accounting Reform and Protection (Sarbanes-Oxley) Act of 2002, Public Law Number 107-204, Sections 108-109.

to measure and communicate the economic substance of their activities to investors, creditors, and other users of external financial reports. Investors and creditors need an independent FASB to maintain the integrity and neutrality of the standards so that the resulting financial information enhances their ability to make sound capital allocation decisions.

Our work is technical in nature, designed to provide entities with the guidance they need to prepare financial reports for investors, creditors, and other users. The FASB believes that information in financial reports must be neutral, or unbiased. That is, financial reporting is meant to tell it like it is, not to allow distortions or the skewing of the information to favor particular industries, particular types of transactions, or particular political, social, or economic goals other than sound and honest reporting. While bending the standards to favor or retain a particular outcome may seem attractive to some in the short run, in the long run, a biased accounting standard is harmful to investors, creditors, the capital markets, and the U.S. economy.

FASB's Mission and International Convergence

The FASB's views on financial reporting and international convergence are shaped primarily by our perceptions of the costs and benefits of providing financial information to investors and the capital markets. We give priority to the needs of investors because, in our view, the primary reason for developing high-quality accounting and external financial reporting standards for public companies is to enhance the efficiency of the capital market by giving potential investors the information and the confidence to buy and sell securities. We also give careful consideration to the costs and benefits to companies that prepare the accounting information as well as the costs imposed on auditors, regulators, and the rest of society, but in our view, these costs are important but secondary criteria for setting external financial reporting policy.

Recent years have been marked by a continuing and rapid globalization of capital markets, cross-border investing, and international capital-raising. In light of that, we agree with the Securities and Exchange Commission's ("SEC") view that "having a widely used single set of high quality globally accepted accounting standards accepted and in place could benefit both the global capital markets and investors."[2] The ultimate goal, however, is not simply identical accounting standards. We believe the ultimate goal should be a common, high-quality global financial reporting system (at least for publicly listed companies) that can be used for decision-making purposes across borders. Achieving that ideal system, however, will require improvements and convergence in various elements of the infrastructure that support the international capital markets, including:

a. A single set of high-quality international standards developed and promulgated by an independent, well-funded, global standard-setting organization, with a global interpretive body to provide timely guidance as implementation issues arise;

b. Common, high-quality disclosure requirements beyond the financial statements and footnotes (e.g., MD&A, market risk disclosures, executive compensation) promulgated by an international group such as the International Organization of Securities Commissions (IOSCO);

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[2] SEC *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards* (August 7, 2007) Section III.A

c. Cooperative international regulatory, enforcement, and corporate governance regimes focused on the needs of investors and other key users of reported financial information;

d. Common, high-quality auditing standards, including auditor independence requirements;

e. Systems for training and educating capital market participants (investors, auditors, preparers, regulators, etc.).

Achieving this ideal financial reporting system would bring many benefits and opportunities. For example, it should significantly improve the overall usefulness and comparability of reported financial information and increase investor confidence worldwide. In addition, achieving the ideal system should reduce the complexity (and related costs) that investors and companies currently face because of the multiple financial reporting languages that are in use today. As a result, global capital markets should function more efficiently and effectively, contributing to overall economic growth.

The challenges involved in developing the ideal financial reporting system are many. Among them are existing differences in institutional, regulatory, business, and cultural environments; the inevitable resistance to change by some; differing priorities among jurisdictions; and the existing U.S. demand for detailed guidance and specialized industry standards. The benefits and opportunities the ideal system offers, however, should justify the cost and effort of confronting these many challenges.

The Current State of Convergence of Accounting Standards

The view that continuing and rapid globalization of capital markets drives a need for a converged and improved financial reporting system is not new. Work is under way to improve and converge various elements of the international financial reporting infrastructure, and we encourage and support the continuation of those efforts. Moreover, accounting standard setters from around the world have been working for many years to develop a single set of high-quality international standards that could be used for both domestic and cross-border financial reporting. The FASB and other national standard setters have been working with the International Accounting Standards Board ("IASB") and its predecessor (the International Accounting Standards Committee) for many years to improve and converge (or harmonize) accounting standards. Since the formation of the IASB in 2001, however, the pace of convergence toward a single set of high-quality international standards has accelerated.

Many jurisdictions around the world have since decided to require or permit public companies to use International Financial Reporting Standards ("IFRS") established by the IASB. Many others are planning to move in this direction. Some of those jurisdictions, however, have a post-issuance process for endorsing each IFRS that has resulted in changes to the standard issued by the IASB, resulting in "as-endorsed" or "as-adopted" versions of IFRS. Moreover, evidence reveals apparent differences in the implementation of IFRS in various jurisdictions that can and do result in national variants of IFRS.[3]

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[3] Financial Reporting Policy Committee of the Financial Accounting and Reporting Section of the American Accounting Association, "Response to SEC Proposing Release," September 24, 2007, pp. 10–13.

In the U.S., the FASB and IASB committed in 2002 to the goal of developing a set of high-quality, compatible standards. The 2002 Norwalk Agreement[4] describes the broad plans for achieving that goal, such as coordinating the agendas of both Boards so that all major projects are undertaken jointly, and eliminating narrow differences in other projects through focused, short-term convergence projects. The 2006 Memorandum of Understanding[5] sets specific milestones to be achieved by 2008. The SEC[6] and others (including the Trustees of the Financial Accounting Foundation[7] and the Financial Accounting Standards Advisory Council[8]) have encouraged and supported this approach. The IASB and FASB have made steady progress toward convergence since 2002. Standards have been issued by both Boards that improve financial reporting by eliminating differences between IFRS and U.S. GAAP (in areas such as inventory, nonmonetary transactions, share-based payments, segment reporting, and the use of a fair value option to simplify the accounting for financial instruments). Both Boards will soon issue a common standard that improves, simplifies, and converges the accounting for business combinations and noncontrolling interests. Differences in existing standards for business combinations are some of the more common reconciling items between U.S. GAAP and IFRS. In upcoming months, both Boards will be seeking comments from their constituents on several major improvement initiatives, including their joint projects

[4] FASB & IASB, *The Norwalk Agreement*, September, 2002. See Attachment A.

[5] FASB & IASB, *A Roadmap for Convergence between IFRSs and US GAAP—2006-2008 Memorandum of Understanding between the FASB and the IASB* February 27, 2006. See Attachment B.

[6] SEC News Release, "SEC Welcomes Plans of U.S., International Standard Setters for Convergence of Accounting Systems," February 27, 2006, http://www.sec.gov/news/press/2006-27.htm.

[7] The Financial Accounting Foundation is the independent, private-sector organization with responsibility for the oversight, administration, and finances of the FASB, the Governmental Accounting Standards Board, and their advisory councils. The FAF selects the members of the standard-setting Boards and Councils, and protects the independence of the Boards.

[8] The primary function of Financial Accounting Standards Advisory Council is to advise the FASB on issues related to projects on the FASB's agenda, possible new agenda items, project priorities, procedural matters that may require the attention of the FASB, and other matters as requested by the chairman of the FASB. FASAC members have varied business and professional backgrounds.

on financial statement presentation, liabilities and equity, revenue recognition, and an improved and converged conceptual framework.

Although the FASB and IASB have made significant progress since 2002 in improving and converging IFRS and U.S. GAAP, that work is incomplete.

- Two SEC studies of accounting issues, for example, conclude that both existing U.S. GAAP and IFRS need improvement in several key areas.[9]

- Many key differences between IFRS and US GAAP remain. Some arise from differences between existing standards. Others arise because of differences in the scope of existing U.S. GAAP and IFRS (for example, IFRS does not currently include comprehensive standards for insurance contracts).

- Studies of foreign filers using IFRS document that the 20-F reconciliations report significant differences in earnings and equity.[10] For example, one recent study of 130 foreign issuers' reconciliations from IFRS to U.S. GAAP reports that earnings reported under IFRS were 5% higher than earnings reported under U.S. GAAP for half of the companies; IFRS earnings exceeded U.S. GAAP earnings by 20% for a quarter of the companies; and seven companies' IFRS earnings were more than double their U.S. GAAP earnings.[11]

[9] SEC "Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System," July 25, 2003, and SEC "Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers," June 15, 2005.
[10] Financial Reporting Policy Committee, p. 4.
[11] Results reported here are based on data from Jack Ciesielski, *The Analyst's Accounting Observer*, "It's Not a Small World, After All: The SEC Goes International" September 24, 2007, pp. 8 and 9

The Future of Convergence of Accounting Standards

While the Boards' current efforts are producing results, it will take many years to realize the goal of a single set of high-quality international standards using the approach spelled out in the Norwalk Agreement. As discussed below, in order to accelerate progress toward a single set of high-quality international standards for use in both domestic and cross-border markets, we believe now is the appropriate time to develop a plan for moving all U.S. public companies to an improved version of IFRS and to consider any actions needed to strengthen the IASB as the global accounting standard setter.

Why an Improved Version of IFRS Is Likely to Be the Global Standard

While U.S. GAAP has enjoyed wide acceptance in the past, current trends suggest that it will not become the single set of international standards. To date, over 100 jurisdictions, including Hong Kong, Australia, and the countries in the EU, either require or permit the use of IFRS or a local variant of IFRS.[12] Recently, other jurisdictions with large capital markets (e.g., Canada, Japan, and Korea) have announced plans to replace their national GAAP for public companies with IFRS. To be truly international, however, any single set of international standards would also need to be adopted and used by U.S. public companies. Therefore, achieving the goal of a single set of high-quality international standards logically requires U.S. accounting standards to transition to IFRS because it is highly unlikely that the other countries that recently embraced IFRS will be willing to convert to U.S. GAAP. Thus, we believe that planning for a transition by U.S. public companies to an improved version of IFRS is the logical way forward to achieving the

[12] See http://www.iasplus.com/country/useias.htm (updated as of October 5, 2007).

goal of a single set of high-quality international standards that will deliver the quality and comparability in financial reporting that investors demand.

Managing the Complex Process of Moving U.S. Public Companies to IFRS

Moving all U.S. public companies to an improved version of IFRS will be a complex, multi-year endeavor. A smooth transition will not occur by accident. To manage a change of this magnitude, we believe that the first step should be the development of a blueprint for coordinating and completing the transition that is agreed to by all major stakeholders in the process (SEC, FASB, IASB, PCAOB, users, preparers, auditors, regulators, educators, and others). The goal of the blueprint should be to identify the most orderly, least disruptive, and least costly approach to transitioning to an improved version of IFRS. The blueprint should set a target date or dates for U.S. registrants to move to IFRS that allows adequate time for making the many changes, both within the U.S. and internationally, that are needed before requiring the use of IFRS by all U.S. public companies.

Changes Needed Internationally

The blueprint should identify changes to the reporting system internationally that are necessary to achieving the goal of a single set of high-quality international standards. Some of the more important of those changes follow:

- Evaluating and possibly changing the post-issuance endorsement processes currently in place in many jurisdictions to reduce or eliminate the "as-adopted" versions of IFRS. The existence of "as-adopted" versions is inconsistent with the goal of a single set of high-quality international standards.

- Further strengthening the IASB as an independent, global standard setter by establishing mechanisms to ensure the sufficiency and stability of its funding and staffing.
- Improving IFRS in key areas by developing standards where none currently exist (such as insurance contracts and extractive industries) and strengthening other existing standards to provide more relevant, less complex reporting (for example, the conceptual framework, financial instrument accounting, and leasing)
- Improving coordination of global regulatory review and enforcement.

Changes Needed Within the U.S.

As noted above, moving U.S. public companies to IFRS will be a complex, multi-year endeavor. The blueprint should also identify and establish timetables to accomplish the myriad of changes necessary to support this move, including changes to the financial reporting infrastructure in the U.S. that would be necessary to support the move to an improved version of IFRS. Some of the key infrastructure elements to consider include:

- How to effectively train and educate issuers, their auditors, investors, and other users of financial statements about the improved version of IFRS, including implications for the U.S. education system and the uniform Certified Public Accountant examination;
- How a transition to IFRS will affect audit firms and auditing standard setting;
- How to modify existing internal control systems that were designed around existing U.S. GAAP requirements;

- How a move to IFRS would affect current laws, regulatory agency policies, contractual arrangements, or state legal requirements that are currently based on U.S. GAAP financial reports;
- How current SEC disclosure requirements would mesh with the reporting requirements under IFRS;
- How to determine financial reporting standards for private companies and not-for-profit enterprises, which currently use U.S. GAAP; and
- How other elements of the U.S. system might need to change to enable the use of accounting standards that include less specific and less detailed guidance (thus requiring more judgment) and less specialized industry accounting requirements.

The many changes to the U.S. financial reporting infrastructure and the changes within U.S. companies necessary to support the move to IFRS will take a number of years to complete. During that time, the FASB and IASB would continue our cooperative efforts to develop common, high-quality standards in those key areas where neither existing U.S. GAAP nor IFRS provides sufficient information for investors. Those common standards, issued by both the FASB and IASB, should be adopted by companies in the U.S. and internationally when issued and effective. In other areas that are not the subject of those joint improvement projects, U.S. public companies would adopt the IFRS standards "as is" over a period of years. [13] The adoption of those IFRS standards by U.S. companies would complete the migration to an improved version of IFRS.

[13] If it were clear that U.S. GAAP in a particular area was demonstrably better than the IFRS standard, consideration should be given to incorporating the U.S. GAAP standard into IFRS "as is".

We believe there are many advantages to such an “improve and adopt” approach to transitioning U.S. public companies to an improved version of IFRS. Financial statement users both domestically and internationally will benefit from the continued, cooperative efforts by the FASB and IASB to improve, simplify, and converge financial reporting in those areas of existing U.S. GAAP and IFRS that are clearly deficient. U.S. capital market participants are accustomed to adopting new accounting standards from time to time. Under this approach, new standards or existing IFRS will be gradually adopted over a period of several years, smoothing the transition process and avoid the capacity constraints that might develop in an abrupt mandated switch to IFRS. Moreover, this approach permits the Boards to focus their resources on improving standards in areas important to investors, rather than on eliminating narrow differences among many standards.

FASB Views on SEC Proposing and Concept Releases

The process of moving to a single set of high-quality international standards—either by implementing the Norwalk Agreement or by developing and implementing a blueprint to move U.S. companies to IFRS—would take a number of years to complete. The length of that process raises valid questions about allowing U.S. companies a choice of using IFRS before the process is complete. Thus, the issues raised by the two recent SEC Releases related to the use of IFRS in the U.S. are important and timely, and we commend the SEC for stimulating a dialogue on those issues. The Proposing Release, if adopted, would allow foreign private issuers to file financial statements prepared in accordance with IFRS without preparing a reconciliation of their reported numbers to

U.S. GAAP. The Concept Release seeks input from interested parties on whether U.S. issuers should be allowed to prepare financial statements in accordance with IFRS.

<u>The Concept Release—Whether To Allow Individual U.S. Public Companies the Choice of Adopting IFRS</u>

Of the issues covered in the releases, we are most interested in the potential for U.S. issuers to use IFRS. A move to IFRS by U.S. issuers seems desirable and inevitable for reasons mentioned above. However, the Concept Release envisions allowing individual U.S. public companies a choice of adopting IFRS or continuing to use U.S. GAAP, thus raising the possibility of a two-GAAP system for public companies. We are generally opposed to allowing companies to elect different accounting methods for economically similar transactions, because of the cost and complexity that such choices create for investors and others trying to use financial information, and the cost and complexity involved in developing a U.S. financial reporting and educational infrastructure that supports two financial reporting languages. The SEC has historically voiced similar concerns about permitting such choices.[14] Furthermore, the underlying infrastructure elements needed to support the use of different accounting methods will not be in place, and as a result, investor confidence could be reduced.

For those reasons, we do not support permitting U.S. companies a choice between IFRS and U.S. GAAP for any extended period of time. We believe it would be preferable instead to move all U.S. public companies to an improved version of IFRS over a transition period of several years following the blueprint mentioned above. That said, within the context of a plan to move the U.S. to an IFRS-based system, consideration

[14] SEC *Concept Release: International Accounting Standards,* Section IV.A.2 (February 18, 2000).

could be given to permitting some companies the choice of transitioning to IFRS more rapidly than the timeframes established in the blueprint.

The Proposing Release—Whether to Remove the Existing U.S. GAAP Reconciliation Requirement

A variety of differing views have been expressed on the SEC's proposal to remove the requirement for foreign issuers preparing financial statements using IFRS, as issued by the IASB, to reconcile their reported results to U.S. GAAP. Foreign preparers and regulators, not surprisingly, support the elimination. Some U.S. companies support removal because reconciliations are costly, and respondents are concerned that they may face retaliatory reconciliation requirements in some foreign capital markets. Some financial statement users contend the reconciliation arrives too late to affect their decisions, while others find it useful in their analysis of financial statements. Academics report evidence that the reconciling items between IFRS and U.S. GAAP are often material, and the differences could get larger once the reconciliation is removed. Of greater concern is evidence of low-quality application and enforcement of IFRS in countries with weak investor protection laws.[15]

We believe that whether or not to eliminate the reconciliation requirement in the near future is a difficult and sensitive matter that could have important implications for the continued development of a global reporting system. On the one hand, we acknowledge the views and concerns of those who believe it would be premature and would result in a loss of information that some investors and other users find important. On the other hand, this change only relates to a relatively small number of SEC registrants in relation

[15] Financial Reporting Policy Committee, pp. 10–13.

to the overall size of our capital market, and continuing the reconciliation requirement could well be viewed by some parties outside this country as a clear signal that the U.S. is not truly interested in participating in the development of an international financial reporting system. In turn, that could negatively impact the willingness of these parties to support continued convergence between IFRS and U.S. GAAP. Conversely, we believe that once the reconciliation requirement is eliminated, some parties who have viewed the convergence effort between the IASB and the FASB as the price of getting the SEC to eliminate the reconciliation may see no further benefit in continued improvement and convergence of IFRS and U.S. GAAP. In that regard, recent comments made in the public press and in public forums give reason to believe that eliminating the reconciliation requirement will result in calls by some for a cessation of any improvement of IFRS, especially any improvements designed to achieve convergence with U.S. GAAP.[16] The decision whether, when, and how to remove the reconciliation requirement rests with the SEC. However, in doing so, we feel it would be very important to make it clear that getting to a single set of high-quality international standards remains the ultimate goal, and that further convergence and improvement of standards is necessary to achieve that goal. Thus, in our view, it would be advisable that the removal of the reconciliation requirement coincide with the commitment, by all relevant parties internationally and within the U.S., to implementing the blueprint for changing to an IFRS-based global reporting system. Furthermore, we strongly agree with the SEC proposal that the reconciliation requirement only be eliminated for those foreign private issuers that fully apply IFRS as issued by the IASB and not for those who use "as-

[16] See, for example, Kate Burgess, "Rethink is urged over accounting proposals." *Financial Times* (11 July 2007) p. 23; and "EU fears U.S. influence," *Accountancy* (August 1, 2007).

adopted" versions of IFRS. To do otherwise would in our view be inconsistent with the goal of moving to a single set of high-quality international standards.

Conclusion

The Financial Accounting Standards Board remains firmly committed to achieving a single set of high-quality international standards, and we believe that now is the time for the SEC, FASB, IASB, PCAOB, users, preparers, auditors, regulators, educators, and others to develop a blueprint for moving U.S. public companies to an improved version of IFRS. Recognizing the emerging trends in the global economy, we stand fully prepared to work with the financial reporting community to implement an orderly and cost effective transition to IFRS.

ATTACHMENT A

2002 NORWALK AGREEMENT

Memorandum of Understanding

“The Norwalk Agreement”

At their joint meeting in Norwalk, Connecticut, USA on September 18, 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained.

To achieve compatibility, the FASB and IASB (together, the “Boards”) agree, as a matter of high priority, to:

a) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and International Financial Reporting Standards (IFRSs, which include International Accounting Standards, IASs);

b) remove other differences between IFRSs and U.S. GAAP that will remain at January 1, 2005, through coordination of their future work programs; that is, through the mutual undertaking of discrete, substantial projects which both Boards would address concurrently;

c) continue progress on the joint projects that they are currently undertaking; and,

d) encourage their respective interpretative bodies to coordinate their activities.

The Boards agree to commit the necessary resources to complete such a major undertaking.

The Boards agree to quickly commence deliberating differences identified for resolution in the short-term project with the objective of achieving compatibility by identifying common, high-quality solutions. Both Boards also agree to use their best efforts to issue an exposure draft of proposed changes to U.S. GAAP or IFRSs that reflect common solutions to some, and perhaps all, of the differences identified for inclusion in the short-term project during 2003.

As part of the process, the IASB will actively consult with and seek the support of other national standard setters and will present proposals to standard setters with an official liaison relationship with the IASB, as soon as is practical.

The Boards note that the intended implementation of IASB’s IFRSs in several jurisdictions on or before January 1, 2005 require that attention be paid to the timing of the effective dates of new or amended reporting requirements. The Boards’ proposed strategies will be implemented with that timing in mind.

ATTACHMENT B

2006 MEMORANDUM OF UNDERSTANDING

A Roadmap for Convergence between IFRSs and US GAAP—2006-2008

Memorandum of Understanding between the FASB and the IASB

27 February 2006

After their joint meeting in September 2002, the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued their Norwalk Agreement in which they 'each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and the IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained.'

At their meetings in April and October 2005, the FASB and the IASB reaffirmed their commitment to the convergence of US generally accepted accounting principles (US GAAP) and International Financial Reporting Standards (IFRSs). A common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB.

The FASB and the IASB recognise the relevance of the roadmap for the removal of the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It has been noted that the removal of this reconciliation requirement would depend on, among other things, the effective implementation of IFRSs in financial statements across companies and jurisdictions, and measurable progress in addressing priority issues on the IASB-FASB convergence programme. Therefore, the ability to meet the objective set out by the roadmap depends upon the efforts and actions of many parties—including companies, auditors, investors, standard-setters and regulators.

The FASB and the IASB recognise that their contribution to achieving the objective regarding reconciliation requirements is continued and measurable progress on the FASB-IASB convergence programme. Both boards have affirmed their commitment to making such progress. Recent discussions by the FASB and the IASB regarding their approach to the convergence programme indicated agreement on the following guidelines:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB's and the IASB's resources—instead, a new common standard should be developed that improves the financial information reported to investors.
- Serving the needs of investors means that the boards should seek to converge by replacing weaker standards with stronger standards.

Consistently with those guidelines, and after discussions with representatives of the European Commission and the SEC staff, the FASB and the IASB have agreed to work towards the following goals for the IASB-FASB convergence programme by 2008:

Short-term convergence

The goal by 2008 is to reach a conclusion about whether major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas.

Topics for **short-term convergence** include:

To be examined by the FASB	To be examined by the IASB
Fair value option*	Borrowing costs
Impairment (jointly with the IASB)	Impairment (jointly with the FASB)
Income tax (jointly with the IASB)	Income tax (jointly with the FASB)
Investment properties**	Government grants
Research and development	Joint ventures
Subsequent events	Segment reporting
FASB Note: *On the active agenda at 1 July 2005 ** To be considered by the FASB as part of the fair value option project	*IASB Note:* Topics are part of or to be added to the IASB's short-term convergence project, which is already on the agenda.

Limiting the number of short-term convergence projects enables the boards to focus on major areas for which the current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

Other joint projects

The goal by 2008 is to have made significant progress on joint projects in areas identified by both boards where current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

The FASB and the IASB also note that it is impractical, when factoring in the need for research, deliberation, consultation and due process, to complete many of the other **joint projects** by 2008. The two boards understand that during this time frame measurable progress on such projects, rather than their completion, would fulfil their contribution to meeting the objective set forth in the roadmap.

Furthermore, it is noted that the strategy regarding other joint projects and the goals described below should be consistent with one of the IASB's objectives of providing stability of its standards for users and preparers in the near term.

After consultations with representatives of the European Commission and the SEC staff and consistently with existing priorities and resources, the FASB and the IASB have expressed the progress they expect to achieve on their convergence project in the form of a list of 11 areas of focus. It is noted that these projects will occur in the context of the ongoing joint work of the FASB and the IASB on their respective Conceptual Frameworks. As part of their Conceptual Framework project, the FASB and the IASB will be addressing issues relating to the range of measurement attributes (including cost and fair value) to enable a public discussion on these topics to begin in 2006.

After considering the complexity of those topics and consultation requirements, the boards set the following goals for 2008 for convergence topics already on either their active agendas or the research programmes:

Topics already on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Business combinations	On agenda – deliberations in process	On agenda – deliberations in process	To have issued converged standards (projected for 2007), the contents and effective dates of which to be determined after taking full account of comments received in response to the Exposure Drafts.
2. Consolidations	On agenda – currently inactive	On agenda – no publication yet	To implement work aimed at the completed development of converged standards as a matter of high priority.
3. Fair value measurement guidance	Completed standard expected in the first half of 2006	On agenda – deliberations in process	To have issued converged guidance aimed at providing consistency in the application of existing fair value requirements.[17]
4. Liabilities and equity distinctions	On agenda – no publication yet	On agenda (will follow FASB's lead)	To have issued one or more due process documents relating to a proposed standard.
5. Performance reporting	On agenda – no publication yet	Exposure draft on a first phase	To have issued one or more due process documents on the full range of topics in this project.
6. Post-retirement benefits (including pensions)	On agenda – deliberations underway on the first phase of multi-phase project	Not yet on the agenda	To have issued one or more due process documents relating to a proposed standard.
7. Revenue recognition	On agenda – no publication yet	On agenda – no publication yet	To have issued one or more due process documents relating to a proposed comprehensive standard.

[17] The fair value guidance measurement project will not extend requirements for the use of fair value measurements, and any proposals regarding increasing the use of fair value accounting will be addressed in the context of the Conceptual Framework and other projects on the FASB's and IASB's respective agendas.

The objective of the goals set out above is to provide a time frame for convergence efforts in the context of both the objective of removing the need for IFRS reconciliation requirements by 2009 and the existing agendas of the FASB and the IASB. The FASB and the IASB will follow their normal due process when adding items to the agenda. Items designated as convergence topics among the existing research programmes of the boards include:

Topics already being researched, but not yet on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Derecognition	Currently in the pre-agenda research phase	On research agenda	To have issued a due process document relating to the results of staff research efforts.
2. Financial instruments (replacement of existing standards)	On research agenda and working group established	On research agenda and working group established	To have issued one or more due process documents relating to the accounting for financial instruments.
3. Intangible assets	Not yet on agenda	On research agenda (led by a national standard-setter)	To have considered the results of the IASB's research project and made a decision about the scope and timing of a potential agenda project.
4. Leases	Pre-agenda research underway	On research agenda (led by a national standard-setter)	To have considered and made a decision about the scope and timing of a potential agenda project.

In setting out the projects for both the short-term convergence topics and the major joint topics, the FASB and the IASB recognise that with respect to its foreign registrants the SEC staff will undertake an analysis of their 2005 IFRS financial statements across companies and jurisdictions. This analysis may reveal the need for additional standard-setting actions by one of the boards or both. Furthermore, the FASB and the IASB note that their work programmes are not limited to the items listed above, but remain committed to fulfilling their contribution to meeting the objectives set out by the roadmap.

The FASB and the IASB also recognise the need to undertake this work in a manner that is consistent with their established due process, including consultation with interested parties on their ongoing joint efforts before reaching conclusions.