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2008 IFRS Survey

Where Are We Today?

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We gratefully acknowledge D.J. Gannon, Randall Sogoloff, and Stephanie Wolfe for their contributions to this survey and appreciate the efforts of the Production Group, including Theresa Asarito, Lynne Campbell, Michael Lorenzo, Jeanine Pagliaro, and Joseph Renouf.

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Introduction

The globalization of the world's capital markets has sparked a movement away from local standards and benchmarks to global ones. Perhaps the best example of this is the movement toward International Financial Reporting Standards (IFRSs) as a single set of globally accepted accounting and reporting standards. IFRSs are rapidly gaining worldwide acceptance, spurring U.S. companies to assess the potential implications of adopting them.

IFRSs are now used for public reporting purposes in more than 100 countries, ranging from Australia to the United Kingdom. Other countries are expected to follow suit over the next few years, including Chile (2009), Korea (2009), Brazil (2010), India (2011), and Canada (2011). Still other countries, such as China and Japan, while not adopting IFRSs outright, have agreed to work with the International Accounting Standards Board (IASB) to eliminate major differences between home-country generally accepted accounting principles (GAAP) and IFRSs by 2011. Further, about 40 percent of the Fortune Global 500 companies currently use IFRSs, and that percentage will significantly increase over the next couple of years since most companies outside the United States that currently use their home-country GAAP will be required to move to IFRSs.

So what about use of IFRSs in the United States? A recent flurry of activity at the Securities and Exchange Commission (SEC) has made it almost certain that U.S. companies will be able to use IFRSs in the near future. In August 2007, the SEC issued a "concept release" that solicited input on whether U.S. issuers should be permitted to use IFRSs or U.S. GAAP when preparing their financial statements for SEC reporting purposes. The concept release builds on the SEC's final rule issued in November 2007, which eliminated the requirement for foreign private issuers using IFRSs to reconcile their filings with the SEC to U.S. GAAP.

Most respondents to the concept release support allowing U.S. issuers to use IFRSs. In addition, most respondents, including issuers and the major public accounting firms, support giving U.S. issuers the choice to use IFRSs or U.S. GAAP during an interim period, with an eventual movement to IFRSs for all issuers. However, some respondents do not support such an option but advocate requiring IFRSs by a mandatory date.

On the basis of the feedback it received about the concept release as well as the roundtables it held in December 2007, the SEC is considering whether to issue a "proposing release" (formal rule proposal) to change the reporting requirements for U.S. issuers. This decision could come very soon. It is expected that certain U.S. companies will have the option of using IFRSs by 2011. The bottom line — by 2011, almost every country, including the United States, will most likely be using IFRSs to some extent.

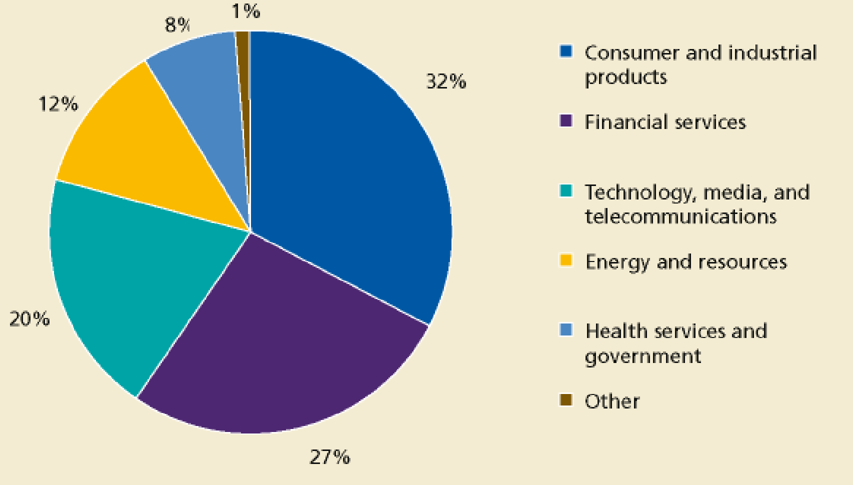
Scope of Deloitte Survey

Given the impending move to IFRSs in the United States, Deloitte surveyed U.S.-company senior finance professionals on various IFRS issues. The primary goal of the survey was to ascertain U.S. companies' level of awareness about and interest in IFRSs.

The survey asked whether companies would consider adopting IFRSs for U.S. reporting purposes if given the choice by the SEC. Other survey question topics included the expected IFRS adoption date by U.S. issuers in general, the time frame of potential IFRS adoption, overall familiarity with IFRSs, general visibility over local or statutory reporting, and potential obstacles to IFRS adoption.

Individuals from approximately 200 companies in various industries responded to the survey (see Appendix A for a list of the survey questions and response options). A breakout of survey respondents by industry is shown below:

Survey Respondents by Industry

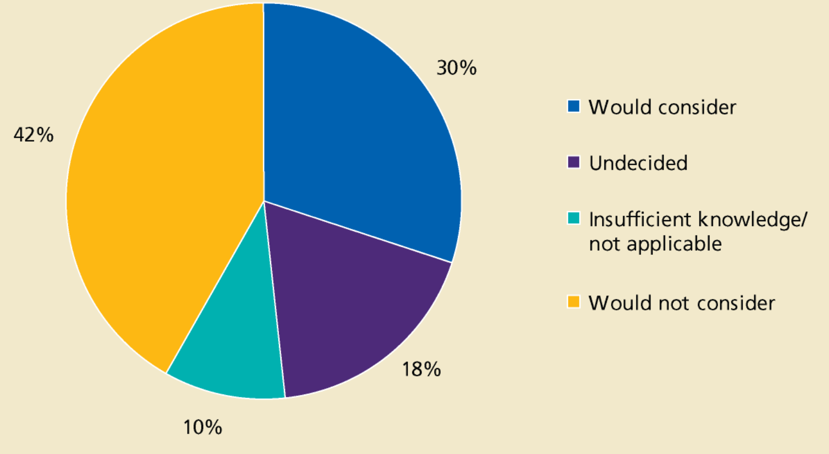


Overall Survey Results and Analysis

Use of IFRSs

Thirty percent of the survey respondents indicated that, if given the choice now, they would consider adopting IFRSs. Another 10 percent indicated that they have insufficient knowledge to determine whether they would consider adopting IFRSs; 18 percent were undecided.

Interest in Adopting IFRSs



These results suggest that U.S. companies have an interest in adopting IFRSs and that this interest is steadily growing. The movement toward IFRSs is being driven largely by the capital markets. As more companies outside the United States use IFRSs in their financial reporting, many U.S. companies will feel increasing pressure to report information in a comparable manner. The globalization of the capital markets, the increasing global use of IFRSs, and the recent SEC activity are a wake-up call to U.S. companies that IFRSs should be taken seriously.

In his remarks to the "SEC Speaks in 2008" program of the Practising Law Institute in February 2008, SEC Chairman Christopher Cox stated that "it is no longer possible for the SEC to do its work in the United States without a truly global strategy — because, in large measure due to today's instant communications and technology, what goes on in other markets and jurisdictions is now intimately bound up with what happens here. That's why the most significant initiatives we expect to complete in 2008 are in the international and technology arena."

Industry Interest

The industries with the most interest in adopting IFRSs were financial services, health services, and consumer and industrial products. This is not surprising: because many competitors in these industries are non-U.S. companies, U.S. companies in these industries may be more inclined to consider adopting IFRSs because some of them may fear being at a competitive disadvantage. In addition, cross-border merger and acquisition transactions make IFRSs attractive to companies in these industries. With more than 100 countries currently using IFRSs, if cross-border mergers and acquisitions are part of the future business plan, many U.S. companies will have to familiarize themselves with IFRSs.

> Speaking at Compliance Week's 2007 annual conference in Washington, D.C., John White, director of the SEC Division of Corporation Finance, stated, "We've heard from investors, analysts, and from ratings agencies that they may well be driving you to go the IFRS route." He added, "So you might find yourself, whether you want to or not, driven by market forces towards this."

Challenges — A Cultural Shift

The movement toward IFRSs as a single set of globally accepted accounting and financial reporting standards presents many challenges. Perhaps the biggest challenge is a cultural one. Bringing together accounting standards may be easier than coordinating the variety of cultural differences and perspectives involved in interpreting and applying IFRSs.

With the use of IFRSs, companies, auditors, regulators, and users will need to adapt to an accounting and financial reporting framework that requires greater professional judgment and less reliance on detailed rules and bright lines. This will require a change in behavior by all market participants and more of a focus on understanding the substance underlying a transaction or event and how it aligns with base principles and objectives. The challenge is to ensure that although different outcomes may result from the application of IFRSs, such outcomes are within the conceptual parameters of the standards.

> Key questions market participants can ask include the following:
>
> - Does the financial reporting make sense?
> - Does it follow the underlying economics?
> - How does it compare with the financial reporting of other companies that assemble financial reports under similar circumstances?

Anticipated Adoption of IFRSs

Overall, more than 50 percent of respondents believe that at least a quarter of all U.S. issuers will be using IFRSs within the next seven years, with approximately 85 percent of respondents indicating that at least 10 percent of U.S. issuers will be using IFRSs.

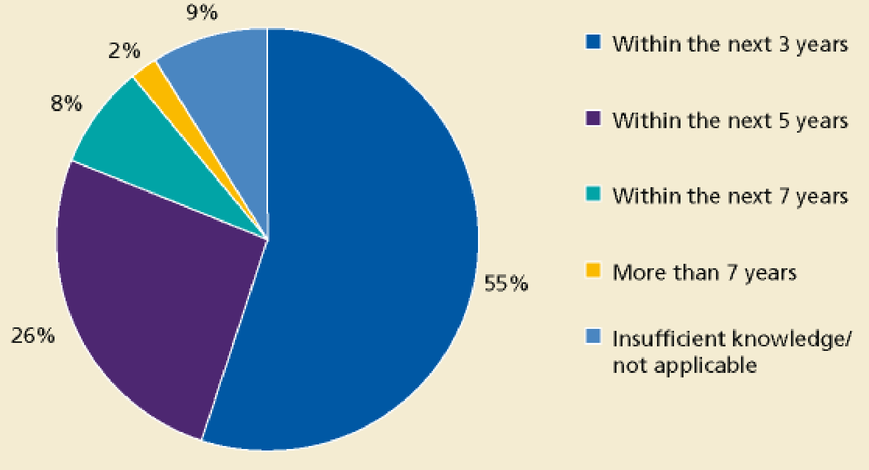
Many U.S. companies have recognized that IFRSs will have a significant impact in the United States regardless of their own expected level of IFRS involvement. Approximately 40 percent of the respondents that indicated they would not adopt IFRSs, if given the choice now, still believed that at least 25 percent of U.S. issuers would be using IFRSs within seven years.

More than 50 percent of respondents that were undecided about adopting IFRSs still believed that at least 25 percent of U.S. issuers would be using IFRSs within seven years.

Time Frame of Potential IFRS Adoption

Of those U.S. companies that would consider adopting IFRSs, if given the choice now, 55 percent indicated they would adopt within three years. This timing is consistent with the SEC's expected timing of allowing certain U.S. issuers to use IFRSs.

Time Frame of Potential IFRS Adoption



Approximately 45 percent of companies that indicated they would not adopt IFRSs, if given the choice now, would still consider adopting IFRSs within the next seven years, while approximately 80 percent of companies that were undecided about adopting IFRSs now indicated that they would consider doing so within the next seven years.

Issues to Consider in Adopting IFRSs

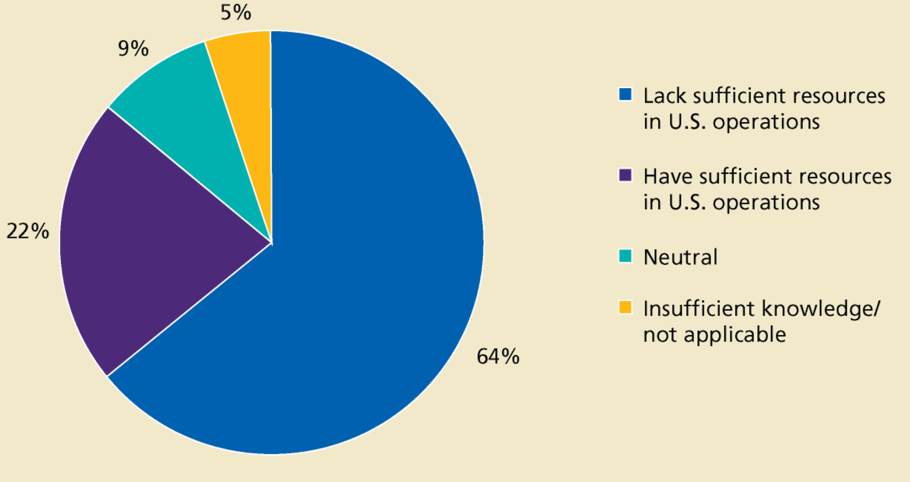
Transition to IFRSs is not just a technical accounting exercise. IFRS adoption affects all aspects of a company, including financial reporting processes and controls, statutory reporting, technology infrastructure, and organizational issues (e.g., tax, treasury, legal matters, people, compensation structures, and pension funding). Companies considering adoption of IFRSs should develop a comprehensive communications strategy both internally and externally. Communication with investors and regulators about the anticipated effects of adoption, including the perceived benefits, will be particularly important.

One of the more significant adoption issues is the uncertainty regarding how U.S. regulatory bodies, including the SEC, the Internal Revenue Service (IRS), and industry regulators (e.g., banking, insurance, and utilities), will operate under an IFRS framework. Companies must consider the effects on current tax structures and tax positions as well as the use of a more principles-based set of accounting standards for reporting in a U.S. regulatory environment. The future enforcement landscape is uncertain in a world where comparability does not necessarily indicate uniformity across companies.

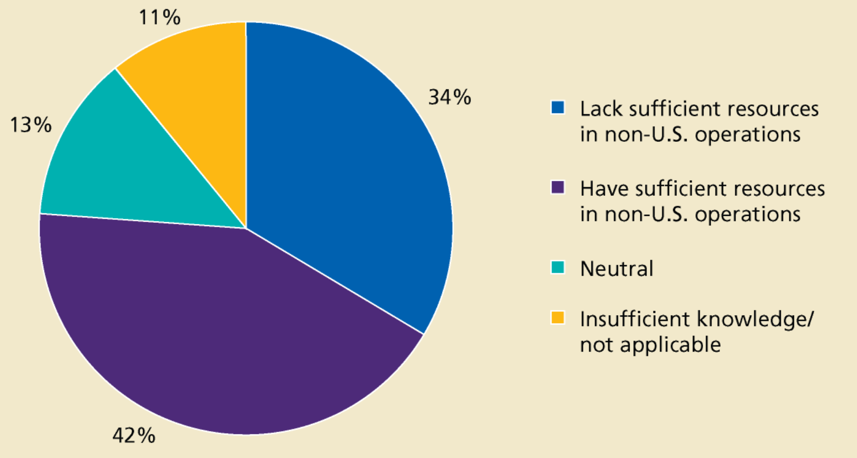
Familiarity With IFRSs

As expected, the survey results indicate that companies believe their personnel currently lack sufficient knowledge about IFRSs to make the conversion and to maintain IFRS financial statements. Of those companies considering IFRSs, 64 percent say they lack skilled resources in their U.S. operations while 34 percent believe they lack skilled resources in their non-U.S. operations. These results indicate that more training in IFRSs is required.

Adequacy of Resources in U.S. Operations



Adequacy of Resources in Non-U.S. Operations



U.S. professionals who are already knowledgeable about U.S. GAAP may not find IFRSs as difficult to understand as professionals in other countries do. Many of the concepts and principles underlying IFRSs are similar to U.S. GAAP. In addition, many differences between IFRSs and U.S. GAAP either have been or are being aligned or narrowed via the ongoing convergence efforts. Several areas in which substantial convergence between U.S. GAAP and IFRSs has occurred are:

- Share-based payment.
- Business combinations.
- Segments.

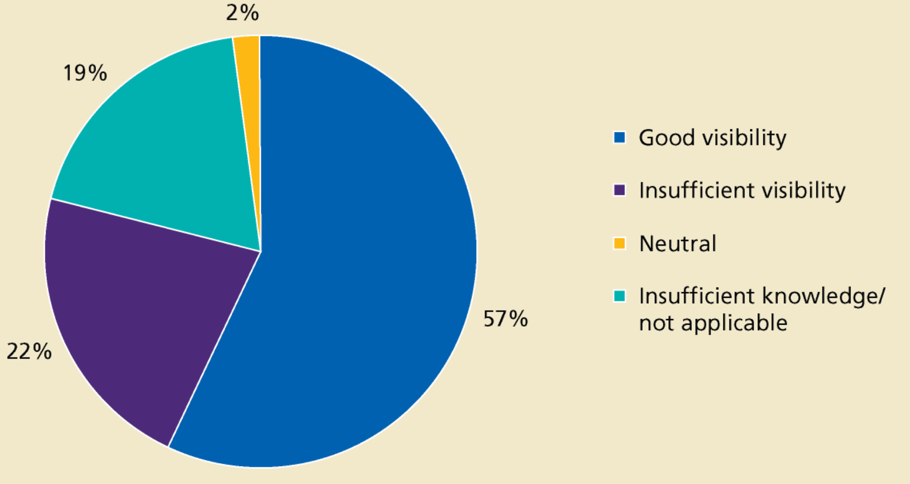
However, differences still exist. By leveraging current knowledge about U.S. GAAP and focusing on the key differences in principles and alternatives in IFRSs, U.S. companies can more effectively train their professionals.

There is still much work to be done before a mandated adoption of IFRSs by U.S. companies. For example, colleges and universities must begin to educate accounting students in IFRSs and these standards should be considered for inclusion in CPA licensing requirements.

Visibility Over Local and Statutory Reporting

Companies that operate in many different countries and that have local or statutory reporting requirements already may require the use of IFRSs. Companies should assess the impact of local or statutory reporting by non-U.S. subsidiaries. According to the survey, 43 percent of U.S. companies that would consider adopting IFRSs believe they do not have good visibility over statutory reporting requirements governing their non-U.S. subsidiaries or have insufficient knowledge about the local reporting requirements.

Visibility Over Local and Statutory Reporting



A company should identify countries that may now have a local IFRS reporting requirement or option to use IFRSs or that will have such a requirement in the near future. Equity investees and venturers in joint venture arrangements should be considered in this analysis. A company also should consider complex cross-border structures that have IFRS requirements.

Benefits of and Obstacles to IFRS Adoption

Overall, 43 percent of companies surveyed indicated that the potential cost and complexity of conversion to IFRSs were the most significant obstacles to adoption. The cost and complexity of converting to IFRSs will vary for each company and will generally depend on the pervasiveness of the effects of the differences in reporting between U.S. GAAP and IFRSs. The more significant costs of converting to IFRSs relate to education and training as well as to potential changes in technology infrastructure and systems.

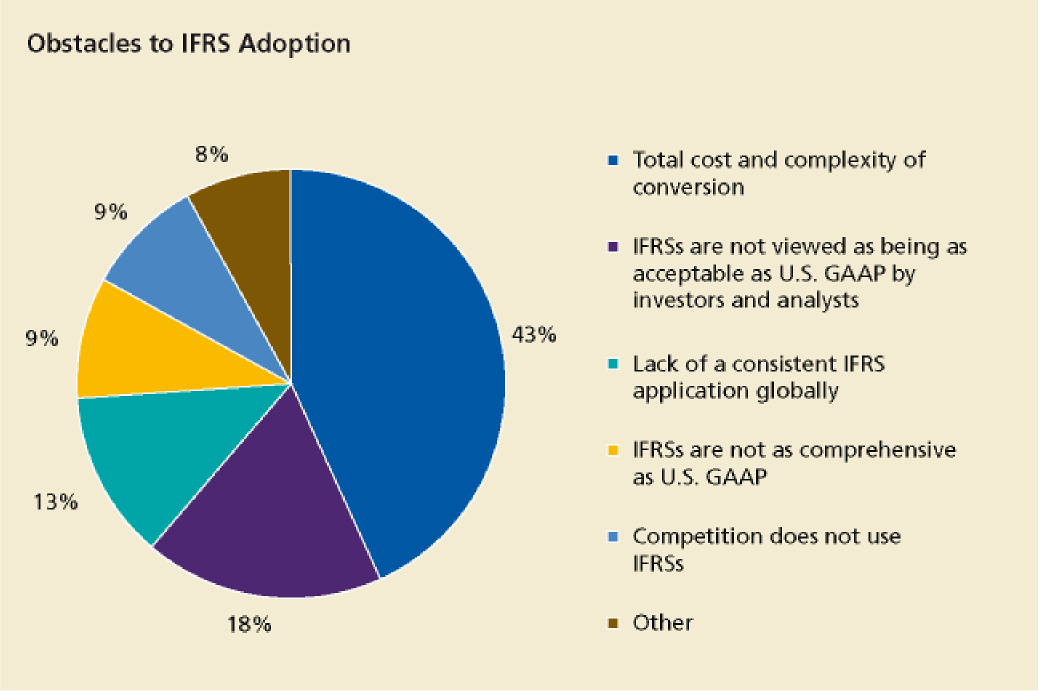
However, while it can be difficult to quantify the benefits of using IFRSs, a number of companies have concluded that over the longer term, the benefits of conversion outweigh the additional costs incurred.

Many companies adopting IFRSs have benefited from a reduction in costs. Companies that prepare and file financial statements in multiple jurisdictions may see cost savings if they are allowed to prepare financial statements in accordance with IFRSs. The use of one set of globally accepted standards not only for public reporting requirements, but also for local or statutory purposes, will further reduce the overall costs of financial reporting.

Moreover, IFRSs allow for the development of a consistent set of accounting and financial reporting policies for both local statutory and consolidated reporting, which improves the quality and comparability of financial information. This directly benefits shareholders and analysts looking for consistent, high-quality information to assess companies across borders.

Other benefits of IFRS adoption include the following:

- *More efficient use and availability of resources* — IFRSs facilitate the development of standardized training programs, eliminate divergent accounting systems, and could reduce third-party fees associated with local statutory reporting.
- *Improved controls* — IFRSs allow for greater control over statutory reporting, thereby reducing risks related to penalties and compliance problems at the local level. Many local statutory reports are prepared through a manual conversion from U.S. GAAP. Often there is no worldwide "owner" for statutory reporting.
- *Better cash management* — Dividends that can be paid from subsidiaries are based on local financial statements. A change from local GAAP to IFRSs can have significant effects on cash dividends, allowing a consistent standard across countries that can improve cash flow planning.



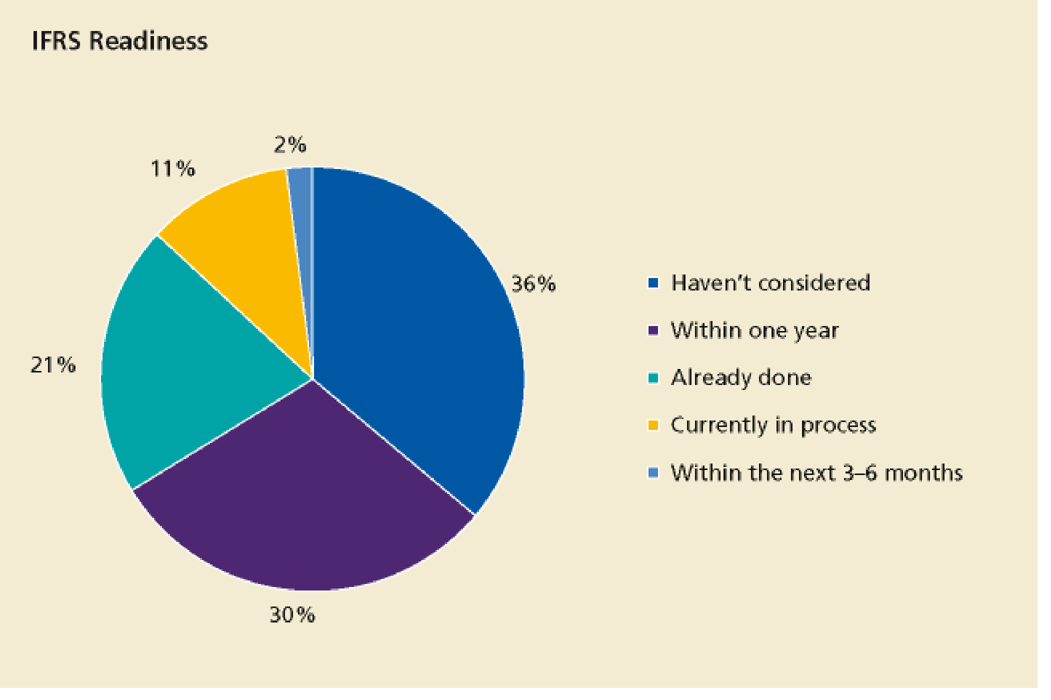
Further, the survey results demonstrate a perception among some companies (18 percent of the respondents) that investors and analysts do not view IFRSs as being as acceptable as U.S. GAAP. In reality, many investors and analysts already have accepted IFRSs as a legitimate reporting basis.

At the March 2007 SEC roundtable discussions on the proposal to eliminate the requirement for foreign private issuers using IFRSs to reconcile to U.S. GAAP, many investors and analysts voiced support for the proposal and the growing acceptability of IFRSs worldwide. Greg Jonas, managing director of Moody's Accounting Specialist Group, stated, "IFRS [is] rapidly becoming the universal language. It's becoming the language of our analysts."

Upon accepting the Atlantic Leadership Award from the European-American Business Council on February 1, 2008, SEC Chairman Christopher Cox remarked, "This year, the Commission will consider how we will map the future for U.S. firms and International Financial Reporting Standards. But one thing is certain: the expanded use of a single, high-quality accounting standard will eventually empower investors to make better informed investment decisions by giving them information that is more easily comparable."

IFRS Readiness

Of those companies that would consider adopting IFRSs if given the choice now, 36 percent have not yet considered a plan for adoption.



Given the heightened interest in and activity surrounding IFRSs, U.S. companies should take steps now to increase their understanding of IFRSs, including an assessment of how current and potential SEC developments concerning IFRSs will affect their organizations and a determination of the appropriate course of action for responding to a shift toward IFRSs. In addition, companies should communicate (1) internally and (2) with investors to ensure that they understand the potential impact of implementing IFRSs.

Deloitte Resources and Contacts

Deloitte has extensive experience in IFRSs. With thousands of IFRS-experienced professionals in our global network, we provide a comprehensive array of IFRS-related services. We help companies:

- Evaluate the potential impacts of IFRSs.
- Assess readiness for IFRS conversions.
- Implement IFRS conversions by providing support with technical research, project management, and training.
- Address the implications of IFRSs in such areas as tax, finance operations, technology, and valuation.

For more information, please contact:

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Appendix A: Survey Questions

The survey asked the following questions (response options are noted in brackets after the question/statement):

1. [Rank the following in order of priority, from most important to least important.] The primary goal of accounting and financial reporting standards should be to create information that:
    a. Reflects the underlying substance of transactions and events, including their current values.
    b. Is comparable among companies.
    c. Is comparable across periods within a company's financial statements.

    [Least important; Important; Most important]
2. Principles-based judgments should play a more important role in the application of accounting and financial reporting standards than adherence to bright-line rules.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]
3. In what industries does your company operate?

    [Financial services; Health services and government; Consumer and industrial products; Energy and resources; Technology, media, and telecommunications]
4. What percentage of your company's operations are outside the United States?

    [Under 10%; 10%–25%; 26%–50%; 51%–75%; 76%–90%; Over 90%]
5. In what locations does your company operate?

    [U.S. only; Americas region; Asia-Pacific region; European region; Africa-Middle East region]
6. It is likely that your company will commence operations or begin to acquire operations outside the United States within the next three years.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]
7. What portion of your company's competition do you believe is headquartered outside the United States?

    [None; Some; Most; Virtually all]
8. Where does your company have publicly listed debt or equity?

    [U.S. only; Americas region; Asia-Pacific region; European region; Africa-Middle East region]
9. Your company has centralized visibility over statutory reporting requirements governing non-U.S. subsidiaries.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]

10. What were your company's total sales for the last fiscal year?

    [Under $100 million; $100–$149 million; $150–$249 million; $250–$499 million; $500–$999 million; $1–$10 billion; Over $10 billion]

11. What percentage of your company's total sales for the last fiscal year was earned outside the United States?

    [Under 10%; 10%–25%; 26%–50%; 51%–75%; 76%–90%; Over 90%]

12. The company has an adequate number of personnel working in its U.S. operations/entities that collectively have a level of IFRS knowledge that is sufficient to convert to and maintain IFRS financial statements.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]

13. The company has an adequate number of personnel working in its non-U.S. operations/entities that collectively have a level of IFRS knowledge that is sufficient to convert to and maintain IFRS financial statements.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]

14. If given a choice between U.S. GAAP and IFRS for U.S. reporting purposes your company would consider adopting IFRS.

    [Insufficient knowledge/not applicable; Strongly disagree; Disagree; Neither agree nor disagree; Agree; Strongly agree]

15. Within what timeframe would your company consider adopting IFRS, if given a choice?

    [Insufficient knowledge/not applicable; Within the next 3 years; Within the next 5 years; Within the next 7 years; Greater than 7 years]

16. Within the next seven years, what percentage of total U.S. public companies do you believe will have adopted IFRS, if given a choice?

    [Under 10%; 10%–25%; 26%–50%; 51%–75%; 75%–90%; Over 90%]

17. What do you see as the most significant obstacle/reason for not adopting IFRS, if given the choice?

    [Total cost and complexity of conversion; Your competition does not use IFRS; Lack of a consistent IFRS application globally; IFRS is not as comprehensive as U.S. GAAP; IFRS is not viewed as acceptable as U.S. GAAP by investors and analysts; Other]

18. When does your company plan to assess the impact and resources required to convert to IFRS?

    [Already done; Currently in process; Within the next 3–6 months; Within one year; Haven't considered]

Appendix B: Deloitte IFRS Resources

Deloitte IFRS Resources	
www.deloitte.com	Includes an IFRS page that contains IFRS information geared toward U.S. companies.
www.iasplus.com	Updated daily, IAS Plus is your one-stop shop for information about IFRSs.
Deloitte Technical Library	Online library of accounting and financial disclosure literature, including all IASB and FASB standards and literature; SEC rules, regulations, and forms; AICPA accounting and auditing guides; and Deloitte's own accounting manuals and other interpretive guidance on U.S. GAAP and IFRSs. Updated every business day.
Deloitte's IFRS e-learning module	E-learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at www.iasplus.com.
IFRSs in Your Pocket	Pocket guide includes a description of the IASB structure, biographies of IASB members, an IASC/IASB chronology, a table on use of IFRSs around the world, summaries of all IFRSs, overviews of all IASB projects, and more. Updated annually.
IFRS Insights	A monthly newsletter on IFRSs for U.S. companies.
IAS Plus newsletter	A quarterly newsletter on recent developments in IFRSs and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit the IAS Plus Web site.
Presentation and disclosure checklist	Checklist incorporating all the presentation and disclosure requirements of IFRSs.
Compliance questionnaire	Questionnaire to assess compliance with the recognition and measurement principles in IFRSs.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2007 Financial Instruments	Third edition (March 2007). Guidance on applying IAS 32, IAS 39, and IFRS 7, including illustrative examples and interpretations.
First-time Adoption: A Guide to IFRS 1	Application guidance for IFRS 1, effective in 2005.
Share-based Payments: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.

Business Combinations: A Guide to IFRS 3	Supplements the IASB's own guidance for applying this standard.
Interim Financial Reporting: A Guide to IAS 34	Guidance on applying the interim reporting standard, including a model interim financial report and an IAS 34 compliance checklist.
Comparison of IFRSs and U.S. GAAP	Standard-by-standard comparison of key differences.
Gearing Up for Change: Why U.S. Companies Could Benefit From International Financial Reporting Standards	Deloitte Insights podcast covering readiness of U.S. companies for a transition to IFRSs.
SEC Comment Letters on Foreign Private Issuers Using IFRSs	Analysis of SEC focus areas related to IFRS filers over the past two years.