



## JURISDICTIONAL PROFILE: **United States**

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This Profile provides information about the application of IFRS Standards in United States. IFRS Standards are developed and issued in the public interest by the International Accounting Standards Board (the Board). The Board is the standard-setting body of the IFRS® Foundation, an independent, private sector, not-for-profit organisation.

This Profile has been prepared by the IFRS Foundation based on information from various sources. The starting point was the answers provided by standard-setting and other relevant bodies in response to a survey that the Foundation conducted on the application of IFRS Standards around the world between August and December 2012. The Foundation drafted the profile and invited the respondents to the survey and others (including regulators and international audit firms) to review the drafts, and their comments are reflected.

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### RELEVANT JURISDICTIONAL AUTHORITY

Organisation

Staff of the US Securities and Exchange Commission

Role of the organisation

The US Securities and Exchange Commission (SEC or ‘the Commission’) is the principal US federal agency that is responsible for administering the federal securities laws. Since the time of its establishment, in 1934, the federal securities laws have set forth the SEC’s broad authority and responsibility to prescribe the methods to be followed in the preparation of accounts and the form and content of financial statements to be filed under those laws, as well as the responsibility to ensure that investors are furnished with other information necessary for investment decisions. To assist it in meeting this responsibility the SEC historically has looked to private-sector standard-setting bodies to develop accounting principles and standards.

Since its formation in 1973, the Financial Accounting Standards Board (FASB) has established standards of financial accounting for the preparation of financial reports by nongovernmental entities. The FASB operates as part of the Financial Accounting Foundation (FAF), a private sector, not-for-profit organization. The FASB publishes its standards in the FASB Accounting

Standards Codification™. The standards in this codification are collectively commonly referred to as 'US GAAP'.

The SEC recognises the financial accounting and reporting standards of the FASB as "generally accepted" for purposes of the federal securities laws. As a result, registrants are required to comply with those standards in preparing financial statements filed with the Commission, unless the Commission directs otherwise. For purposes of the federal securities laws, the SEC or its staff will supplement or supersede FASB standards if it is appropriate to do so. This can come in the form of additional disclosure requirements or interpretive guidance, or may involve establishing accounting requirements in the absence of authoritative guidance. The SEC and its staff monitor the FASB's procedures, qualifications, capabilities, activities and results with respect to its ability to continue to fulfil its role.

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Website [www.sec.gov](http://www.sec.gov)

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Email contact [oca@sec.gov](mailto:oca@sec.gov)

## COMMITMENT TO GLOBAL FINANCIAL REPORTING STANDARDS

Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards?

Yes.

In their *Commission Statement in Support of Convergence and Global Accounting Standards*, dated 24 February 2010, the SEC stated:

"In addition to reaffirming the Commission's strong commitment to a single set of global standards, the recognition that IFRS is best-positioned to be able to serve the role as that set of standards for the US market, and the convergence process ongoing between the Financial Accounting Standards Board ('FASB') and the International Accounting Standards Board ('IASB'), this statement outlines certain of these factors that are of particular importance to the Commission as it continues to evaluate IFRS through 2011."

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Has the jurisdiction made a public commitment towards IFRS Standards as that single set of high quality global accounting standards?

See the excerpt from the 24 February 2010 Commission Statement, above.

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What is the jurisdiction's status of adoption?

The SEC permits but does not require its foreign private issuers to use IFRS Standards as issued by the International Accounting Standards Board (Board) in preparing the issuer's financial statements. As of September 2016, more than 500 foreign private issuers with a market capitalisation in excess of US\$7 trillion file with the SEC financial statements prepared on the basis of IFRS Standards as issued by the Board.

The SEC does not permit its domestic issuers to use IFRS Standards in preparing their financial statements; rather, it requires them to use US GAAP. However, pursuant to the Sarbanes-Oxley Act, the SEC's continued recognition of the standards of the FASB as 'generally accepted' is, among other things, contingent on whether the FASB "…considers, in adopting accounting principles, … the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors."

On 18 May 2008 the Council of the American Institute of Certified Public Accountants (AICPA) amended its member Code of Professional Conduct to designate the Board with respect to international financial accounting and reporting principles. Such a designation affects whether an AICPA member who prepares or audits financial statements prepared pursuant to IFRS may affirmatively state that those financial statements are in conformity with 'generally accepted accounting principles'. This designation allows an AICPA member to do so. As part of this decision the AICPA Board agreed that the AICPA Council would reassess in three to five years whether this designation of the Board remains appropriate. On 19 May 2013 the AICPA Council readopted the designation of the Board with respect to international financial accounting and reporting principles and agreed that the AICPA Council would reassess the designation in another three to five years.

Additional comments provided on the adoption status?

See the information in the 'Extent of IFRS Application' section, below, with respect to work undertaken by the SEC staff as directed by the Commission in its 2010 Statement.

#### Convergence of IFRS Standards and US GAAP

In September 2002 the Board and the FASB agreed to work together, in consultation with other national and regional bodies, to remove differences between IFRS Standards and US GAAP. This decision was embodied in a Memorandum of Understanding (MoU) between the boards known as the Norwalk Agreement.

In 2006 the Board and FASB set milestones for work through 2008.

- A roadmap for convergence 2006-2008.
- In 2008 the two boards issued an update to the MoU, which identified a series of priorities and milestones.
- In 2009, the Group of 20 Leaders (G20) called for standard-setters to re-double their efforts to complete convergence in global accounting standards. Following that request, in November 2009 the Board and the FASB published a progress report describing an intensification of their work programme, including joint board meetings; the boards provided updates to the G20 and subsequently to the Financial Stability Board (FSB) on their progress on convergence projects.
- In March 2010 the Board and the FASB published a quarterly progress report on their work programmes.
- In June 2010 the Board and the FASB published a quarterly progress report on their commitment to convergence of accounting standards.
- In April 2012 the Board and FASB published a joint progress report in which they describe the progress made on financial instruments.
- In February 2013 the Board and FASB published a high-level update on the status and timeline of the remaining convergence projects.

Work on the MoU project was completed when the Board and FASB issued their standards on lease accounting in 2016. The extent of convergence achieved varies across projects covered by the MoU. Some of the major IFRS Standards that were products of the MoU projects include a comparison with the parallel FASB project.

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If the jurisdiction has NOT made a public statement supporting the move towards a single set of accounting standards and/or towards IFRS Standards as that set of standards, explain the jurisdiction's general

Not applicable.

position towards the adoption of IFRS Standards in the jurisdiction.

## EXTENT OF IFRS APPLICATION

*For DOMESTIC companies whose debt or equity securities trade in a public market in the jurisdiction:*

Are all or some domestic companies whose securities trade in a public market either required or permitted to use IFRS Standards in their consolidated financial statements?

No.

If YES, are IFRS Standards REQUIRED or PERMITTED?

Not applicable.

Does that apply to ALL domestic companies whose securities trade in a public market, or only SOME? If some, which ones?

Not applicable.

Are IFRS Standards also required or permitted for more than the consolidated financial statements of companies whose securities trade in a public market?

Not applicable.

For instance, are IFRS Standards required or permitted in separate company financial statements of companies whose securities trade in a public market?

Not applicable.

For instance, are IFRS Standards required or permitted for companies whose securities do not trade in a public market?

In the United States there is no centralised determinant of the financial reporting framework to be used by companies whose capital market activities fall outside the perimeter of the SEC's requirements. In practice however, many of these US 'private' companies have contractual requirements to prepare financial statements in accordance with US GAAP pursuant to credit agreements with either banks or others from whom they obtain financing. Other 'private' companies may choose to prepare general purpose financial statements for other purposes, in which case they are able to select the accounting framework that fits the purpose. In practice this means they mainly select either US GAAP or another comprehensive basis of accounting, such as the US income tax basis of accounting. They may, however, select IFRS Standards. For example, they may select IFRS Standards if they are subsidiaries of, or have significant ownership held by, an entity that prepares financial statements in accordance with IFRS Standards.

If the jurisdiction currently does NOT require or permit the use of IFRS Standards for domestic companies whose securities trade in a public market, are there any plans to permit or require IFRS Standards for such companies in the future?

As a follow up to its 24 February 2010 Commission Statement, the Commission directed the SEC staff to execute a work plan that was intended to aid the Commission in its evaluation of the impact that the use of IFRS Standards by US companies would have on the US securities markets. As a result of this work, on 13 July 2012 the staff of the SEC published a report entitled *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Final Staff Report* (the SEC Staff Report).

The SEC Staff Report represented the culmination of over two years' work by the SEC staff to analyse the issues related to the possible incorporation of IFRS Standards into the US financial reporting system.

The SEC Staff Report was designed to inform the SEC Commissioners about various matters associated with their IFRS policy considerations. The SEC Staff Report did not make a recommendation on whether, how, or when IFRS Standards should be incorporated into the US financial reporting system for domestic issuers. The Commission has not made a determination about whether and, if so, how and when to incorporate IFRS Standards into the US financial reporting system.

On 23 October 2012, the IFRS Foundation produced a staff analysis of SEC Final Staff Report, for the benefit of both the Board and the international community.

*For FOREIGN companies whose debt or equity securities trade in a public market in the jurisdiction:*

Are all or some foreign companies whose securities trade in a public market either REQUIRED or PERMITTED to use IFRS Standards in their consolidated financial statements?

Yes. In 2007 the SEC issued its final rule that removed in 2007 the requirement for foreign private issuers to reconcile their financial reports with US GAAP if their financial statements are prepared using IFRS Standards as issued by the Board.

If YES, are IFRS Standards REQUIRED or PERMITTED in such cases?

IFRS Standards as issued by the Board are permitted.

Does that apply to ALL foreign companies whose securities trade in a public market, or only SOME? If some, which ones?

It applies to all foreign private issuers, as this term is defined in the SEC's rules.

## IFRS ENDORSEMENT

Which IFRS Standards are required or permitted for domestic companies?

Not applicable.

The auditor's report and/or the basis of presentation footnote states that financial statements have been prepared in conformity with:

The financial statements of a foreign private issuer must include in both the auditor's report and in the notes to the financial statements an explicit and unreserved statement that the financial statements have been prepared in accordance with IFRS Standards as issued by the Board. If these assertions are not provided, then the financial statements are required to be reconciled to US GAAP.

Does the auditor's report and/or the basis of preparation footnote allow for 'dual reporting' (conformity with both IFRS Standards and the jurisdiction's GAAP)?

Yes. If the financial statements also comply with a jurisdictional GAAP in addition to compliance with IFRS Standards as issued by the Board, then compliance of the financial statements with the jurisdictional GAAP may also be stated in the notes to the financial statements. If this occurs, then the auditor will also opine on the compliance of the financial statements with the jurisdictional GAAP.

Are IFRS Standards incorporated into law or regulations?

No. While the body of standards composing 'IFRS as issued by the IASB' is invoked under the SEC regulations for the reporting by foreign private issuers, the text of IFRS Standards is not included in either the federal securities laws or the SEC rules and regulations.

If yes, how does that process work?

Not applicable.

If no, how do IFRS Standards become a requirement in the jurisdiction?

Not applicable.

Does the jurisdiction have a formal process for the 'endorsement' or 'adoption' of new or amended IFRS Standards (including Interpretations) in place?

Not applicable.

If yes, what is the process?	Not applicable.
If no, how do new or amended IFRS Standards become a requirement in the jurisdiction?	The SEC's regulations that permit the preparation of financial statements of foreign private issuers in accordance with IFRS Standards as issued by the Board invoke the body of IFRS Standards as it is amended from time to time.

Has the jurisdiction eliminated any accounting policy options permitted by IFRS Standards and/or made any modifications to any IFRS Standards?	No.
If yes, what are the changes?	Not applicable.
Other comments regarding the use of IFRS Standards in the jurisdiction?	None.

## TRANSLATION OF IFRS STANDARDS

Are IFRS Standards translated into the local language?	Not applicable because English is the local language.
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If they are translated, what is the translation process? In particular, does this process ensure an ongoing translation of the latest updates to IFRS Standards?	Not applicable.
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## APPLICATION OF THE IFRS FOR SMEs STANDARD

Has the jurisdiction adopted the IFRS for SMEs Standard for at least some SMEs?	Not applicable.  As stated above in the 'Extent of IFRS Application' section, in the US there is no centralised determinant of the financial reporting framework that these companies are either required or permitted to use for preparing their general purpose financial statements. Accordingly, there is no organisation that would make a centralised 'adoption' decision for the use of the <i>IFRS for SMEs</i> Standard in the United States.
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If no, is the adoption of the IFRS for SMEs Standard under consideration?	Not applicable.
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Did the jurisdiction make any modifications to the IFRS for SMEs Standard?	Not applicable.
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If the jurisdiction has made any modifications, what are those modifications?	Not applicable.
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Which SMEs use the IFRS for SMEs Standard in the jurisdiction, and are they required or permitted to do so?	Not available. Information about whether US 'private' companies have decided, in practice, to prepare their financial statements in accordance with the <i>IFRS for SMEs</i> Standard is not accumulated.
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For those SMEs that are not required to use the IFRS for SMEs Standard, what other accounting framework do they use?	'SMEs' in the United States are part of the broader group of 'private companies'. If not specified in its contractual commitments, a US private company is able to select the accounting framework that fits the purpose of its financial statements. These frameworks can include US GAAP, IFRS Standards as issued by the Board, or other bases of accounting such as the US income tax basis of accounting.
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Other comments regarding use of the IFRS for SMEs Standard?

With respect to SMEs, the AICPA issued a financial reporting framework for privately held small- and medium-sized entities (called the 'FRF for SMEs'). This framework is intended as a self-contained 'other comprehensive basis of accounting' for smaller-to medium-sized, owner-managed, for-profit, private companies that are not required to produce financial statements in accordance with US GAAP.

With respect to the broader group of all US 'private' companies, the FAF has established a body—the Private Company Council (PCC)—whose role is to contribute to the FASB's process of setting accounting standards for private companies.

The PCC has the following two principal responsibilities:

- (a)
- (b)