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## Could a Stock Exchange Merger Accelerate Adoption of IFRS?

MARCH 15, 2011  
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The recent announcement of a merger between Deutsche Boerse AG and the New York Stock Exchange leads many to believe that an acceleration of the conversion from U.S. GAAP to International Financial Reporting Standards for public companies may occur.

The parent company of the NYSE and Germany's Deutsche Boerse AG, the company that operates the stock market in Europe's largest economy, agreed to merge in a deal that will create the world's largest exchange for stocks and derivatives, with 60 percent of the combined company owned by Deutsche Boerse shareholders.

Upon close examination, however, it becomes clear that the question is not whether there will be a full adoption of IFRS, but rather when it will occur. In fact, the actual process of converting to IFRS has already begun in the U.S.

The cornerstone to successful financial reporting is that a singular set of standards must be followed to properly gauge businesses located across the globe. Many public companies in the United States have indicated a willingness to adopt IFRS for this reason. Several of these U.S. companies have or are looking for overseas investors, lenders and potential merger and/or acquisition candidates. If potential business partners are not able to adequately assess and compare companies' financial conditions to similar companies in similar industries, both parties are at a disadvantage, and business deals may be hindered.

In addition, many public companies and U.S. subsidiaries of foreign parent companies currently maintain their financial statements in both U.S. GAAP and IFRS. This may also be the case for companies already using IFRS for statutory reporting outside the U.S. The accounting under two separate sets of accounting standards is costly, and as additional companies begin to do so, there will be an increase in the desire to fully adopt IFRS early.

IFRS has already begun to make its way into U.S. standards. As a matter of fact, the financial community currently awaits a decision by the Securities and Exchange Commission on whether or not IFRS will be incorporated into the U.S. financial reporting system for public companies. The potential currently exists for a full adoption to take place no sooner than 2015; however, the convergence of U.S. GAAP towards IFRS continues to take place on an ongoing basis.

While the investment community, accountants, politicians and other regulators consider whether or not to move to IFRS, the Financial Accounting Standards Board in the United States continues to issue proposals and standards that modify existing U.S. GAAP to more closely resemble IFRS.

Current major proposals by FASB to gradually transition to IFRS include revenue recognition, leases and financial statement presentation. Simultaneously, modifications to IFRS are also being proposed and made to incorporate certain U.S. GAAP rules. These modifications and smooth approaches to IFRS adoption are a logical and efficient means of making the most significant changes in financial reporting ever seen in the United States.

Whether or not the acquisition of the NYSE is approved by regulators, U.S. public companies should be evaluating their state of readiness for the major converging changes that will be taking place over the next few years. Companies must realize the benefits of providing IFRS statements to the users of their financial statements sooner and must evaluate if there are changes in existing policies and methods that could be made now to benefit the company later. It is apparent that full adoption of IFRS is coming to the U.S.; the only question is how soon.

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