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November 9, 2007

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: File Number S7-20-07**

**Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards**

Dear Ms. Morris:

We appreciate the opportunity to comment on the SEC Concept Release: *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards* (Concept Release) and we support the SEC's efforts to give this subject and its ramifications thorough consideration. As described more fully below, we support as the ultimate goal, the use of a single set of high-quality, globally-accepted accounting standards issued by a single global standard setter for financial reporting purposes and we encourage the SEC, in conjunction with others, to establish a transition plan aimed at the achievement of that objective. In particular, we believe that the goal should be for International Financial Reporting Standards (IFRS)<sup>1</sup> to become the single set of high-quality, globally-accepted accounting standards, once the key conditions we describe below are addressed. To further the achievement of the ultimate objective, we believe that the SEC should establish a timeline with clear action steps to address those conditions with the goal of requiring all domestic issuers to apply IFRS within a reasonable transition period.

**A Single Set of High-Quality, Globally-Accepted Accounting Standards Would Serve Users' Interests**

We support the objective of the development of a single set of high-quality, globally-accepted accounting standards to be used for financial reporting purposes. We believe that such a set of accounting standards would serve to increase comparability of financial information among all companies and would promote efficient and more cost-effective access to cross-border capital

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<sup>1</sup> As used in our letter, the term IFRS refers to standards issued by the IASB (including its interpretive body, the International Financial Reporting Interpretations Committee (IFRIC) and their predecessor bodies, the International Accounting Standards Committee (IASC) and the Standing Interpretations Committee (SIC)) and does not extend to jurisdictional variants of IFRS.



markets. Differences in accounting standards complicate the tasks of users of financial statements. A single set of globally-accepted, comparably-applied accounting standards would mitigate that source of complexity.

We believe that IFRS as issued by the International Accounting Standards Board (IASB) is the most likely means by which to achieve that goal, subject to the resolution of key conditions discussed below. Because the goal is the development of a single set of accounting standards used on a global basis, we support the use of IFRS by domestic issuers on an optional basis as part of a transition plan that will lead to a requirement for the use of IFRS by all domestic issuers. As such, we believe that the SEC should establish an action plan, complete with a timeline for achievement of the conditions followed by a short period of transition in which companies can elect to use IFRS until the point when use of IFRS becomes mandatory for all domestic issuers.

We believe that granting an option to domestic issuers to use IFRS without a plan and timetable for requiring all domestic issuers to adopt IFRS would hinder comparability in financial reporting and run counter to the goal of promoting a single set of high-quality, globally-accepted accounting standards. A mixed IFRS-U.S. GAAP regime that would result from an elective system would increase complexity in the financial reporting system for preparers, auditors, users and educators because of the need to maintain knowledge of both IFRS and U.S. GAAP. Such a mixed regime would increase costs incurred by lenders, including rating agencies, and investors, because they would be required to maintain knowledge of both IFRS and U.S. GAAP. It is likely that the increased costs sustained by providers of capital as well as the uncertainty caused by the lack of comparability in financial reporting would be passed along to domestic issuers in the form of higher transaction costs and a risk premium associated with the increased information uncertainty, thereby increasing the cost of capital for domestic issuers.

### **For Practical Reasons, IFRS Should Be the Single Set of High-Quality, Globally-Accepted Accounting Standards**

As the Concept Release reports, almost 100 countries either require or allow the use of IFRS for financial reporting by listed companies, and some of those countries allow the use of IFRS for local regulatory or statutory financial reporting by non-listed companies. Other countries, including Canada and Israel, plan to require or permit the use of IFRS in the next few years. It has become clear that if one embraces the concept, as we do, of a single set of high-quality, globally-accepted accounting standards, the practical route to that outcome is through IFRS.

#### *The New Roadmap—The Conditions for Use of IFRS*

As stated above, we support allowing domestic issuers to prepare financial statements for filing with the SEC using IFRS as part of a defined plan to ultimately require its use by all domestic issuers. However, we believe that certain conditions should be met prior to commencement of the transition period to IFRS. During the transition period, domestic issuers would be permitted a choice between IFRS and U.S. GAAP. As such, we urge the SEC to establish a new



“roadmap”, including a timeline for completion of the needed steps, to address the conditions and commencement of the period of transition to adoption of IFRS by all domestic issuers. We believe the new roadmap should include accomplishment of the following steps:

- *Funding of the IASB*—The IASB currently relies on voluntary contributions from private companies, accounting firms, international organizations and central banks. Additionally, the IASB draws upon resources of other standard setters (e.g., FASB) in developing some of its standards. For the IASB to be positioned most effectively to function as the globally-accepted independent standard setter, its funding should shift to a funding consistent with IASC Foundation Trustees’ funding plan whereby a significant amount of funding is based on levies assessed in the capital markets where IFRS are used. We believe that such a change would be beneficial to the stability of the organization and would share its costs more equitably. The SEC should work with other regulators through the International Organization of Securities Commissions (IOSCO) to put in place a more permanent funding mechanism for the IASB that shares the Board’s cost in proportion to the size of the capital markets that use IFRS.
- *IASB Staffing*—For the IASB to function effectively as the single global standard setter, the level of its funding will need to be sufficient to give the IASB the appropriate amount of resources and staffing to fulfill, on its own, significantly increased responsibilities. We believe that the IASB structure, including IFRIC, and due process procedures include the necessary elements of transparency and accessibility, extensive consultation and responsiveness, and accountability of an independent standard setter. However, for it to be effective as the global standard setter for a significantly larger constituency, the IASB should have sufficient resources and staffing to meet its global standard-setting responsibilities without having to rely on assistance for staffing and initial standard-setting development from national standard setters. We believe that the IASB’s resources and staffing levels will need to increase significantly to support its role as the global standard setter for a significantly larger constituency.
- *Composition of Board and Trustees*—The IASC Foundation Constitution specifies that the mix of Trustees should broadly reflect the world’s capital markets and a diversity of geographical and professional backgrounds.<sup>2</sup> The IASC Foundation Trustees, by its Constitution, should include (a) six Trustees appointed from North America; (b) six Trustees appointed from Europe; (c) six Trustees appointed from the Asia/Oceania region; and (d) four Trustees appointed from any area, subject to establishing overall geographical balance. The Trustees in turn are responsible for selecting the members of the IASB and ensuring that the Board has a combination of technical expertise and diversity of international business and market experience. Unlike the composition of the Trustees, we believe that the Board should not have a specified number of representatives from geographical locations. However, we do believe that the Trustees should ensure that the Board continues to have a mix of both professional backgrounds and geographic capital market representation.

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<sup>2</sup> IASC Foundation Constitution, July 2005, available at [www.iasb.org](http://www.iasb.org).



- *SEC, PCAOB, and AICPA Action*—During the period of transition to mandatory use of IFRS, the SEC should recognize the IASB in addition to the FASB as the accounting standard setters for use by domestic issuers in preparing financial statements for filing with the SEC. Once the period of transition has been completed, the SEC should recognize the IASB as the single accounting standard setter for use by domestic issuers in preparing financial statements for filing with the SEC. We believe that the standards of the IASB and its interpretive body, IFRIC, should not be subject to a formal U.S. ratification or other endorsement process. The SEC also should review its rules and regulations and related interpretative guidance to determine their applicability to issuers using IFRS. Additionally, the PCAOB must address AU 534, *Reporting on Financial Statements Prepared for Use in Other Countries*, and the related interpretation AU 9534, “Financial Statements for General Use Only Outside of the United States in Accordance With International Accounting Standards and International Standards on Auditing”, by either withdrawing and replacing the interpretation or amending AU 534 so that U.S. auditors are permitted to issue an unqualified opinion on financial statements prepared in accordance with IFRS intended for general distribution within the U.S. The AICPA must either modify ET Rule 203, *Accounting Principles*, or have its Council take action under Rule 203 that permits AICPA members to report on IFRS financial statements in a manner that does not result in reporting on them as an other comprehensive basis of accounting.

### *The New Roadmap—Action Plan*

The SEC should establish an action plan similar to the “roadmap”<sup>3</sup> for eliminating the U.S. GAAP reconciliation for IFRS filers to provide for an orderly period of transition to IFRS. The new roadmap should establish the timeline needed to address the conditions described above as well as allowing adequate time to address transition and first-time adoption issues, including a comprehensive review and revision, as needed, by the SEC of its rules and interpretations (see section “SEC Matters”) and any potential required legislative action. Domestic issuers should be permitted to use IFRS once these, and any other issues identified by the SEC in developing the new roadmap, have been addressed. The new roadmap also should include a timeline for the transition period leading to the requirement for use of IFRS by all domestic issuers. The elective period should be followed by a two-stage mandatory-adoption period intended to include all domestic issuers, except possibly investment companies and broker dealers if it is decided that it is advisable to apply a modified approach to those entities. IFRS reporting first would be required by the largest domestic issuers (e.g., large accelerated filers) and subsequently required by smaller issuers over a longer phase-in period. This sequence would allow smaller companies with more limited resources additional time to undertake the training, systems development, and other steps necessary to adopt IFRS. It also would allow these entities to leverage the experience of the group of largest entities who move to IFRS as part of the first transition group.

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<sup>3</sup> Donald T. Nicolaisen, Chief Accountant, U.S. Securities and Exchange Commission, A Securities Regulator Looks at Convergence, April 2005, available at [www.sec.gov](http://www.sec.gov).



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Investment companies and broker dealers should be subject to a separate evaluation and, depending on the outcome, to a different conversion timeline. IFRS and U.S. GAAP differ significantly in their treatment of these entities because IFRS does not have a separate model for them (see additional discussion under “Industry and Other Guidance”). We therefore believe that the new roadmap should give consideration to additional actions that may need to be undertaken in developing the timeline for use of IFRS by these entities.

The timeline should give consideration to any efforts necessary to evaluate and further develop IFRS XBRL taxonomies (see “XBRL” under “SEC Matters” section). To ease the transition to IFRS, the SEC also should extend the first-time IFRS adoption relief provided to foreign private issuers<sup>4</sup> such that the relief is applicable to domestic issuers in their first-time adoption of IFRS.

## **Implementation Issues**

### *Training*

In-depth knowledge of IFRS in the U.S. is now limited. The current knowledge likely does not extend much beyond a varying proportion of the personnel in the senior analyst and credit-rating community, institutional investors, large accounting firms, and domestic companies that report in IFRS in foreign jurisdictions or to foreign parents. For this reason, the training costs for market participants will likely be significant.

U.S. audit firms participate in audits of IFRS financial statements for U.S. subsidiaries of foreign entities currently using IFRS for consolidated reporting. Many of those audit firms, including KPMG LLP, have already invested in an IFRS infrastructure in the U.S., and have provided IFRS training and development for certain audit professionals. However, the adoption of IFRS by domestic issuers would necessitate training of a large number of additional professionals. Given the current knowledge of U.S. GAAP among preparers and auditors, the focus of much of the training can be on areas where U.S. GAAP and IFRS differ. As a consequence, while the training effort is significant, it is analogous to broad-based training on the adoption and implementation of a significant new accounting standard rather than a fundamental retraining (e.g., training needed to convert a tax professional into an audit/financial reporting professional) of preparers and auditors.

We are committed to undertake the necessary training and development to audit financial statements prepared in accordance with IFRS intended for distribution within the U.S. To help raise awareness of IFRS externally, KPMG’s global IFRS group has developed a number of IFRS resources, including a recently released comparison of significant differences between IFRS and U.S. GAAP, developed jointly with KPMG LLP, which are available at [www.kpmgifrg.com](http://www.kpmgifrg.com).

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<sup>4</sup> SEC Release No. 33-8567, First-Time Application of International Financial Reporting Standards, April 12, 2005.



We encourage the SEC to establish an action plan with a related timeline to allow for an orderly and thoughtful transition to IFRS for all domestic issuers. The amount of training that is needed more broadly for preparers, auditors, and users will depend, in part, on the ability of colleges and universities to integrate IFRS into their curricula. Colleges and universities are likely to face significant challenges to implement an IFRS-based accounting curriculum. Those challenges include attracting or training faculty to have the requisite skills to teach IFRS-based accounting courses, development of course instructional materials, and acceptance of IFRS-based accounting programs by accreditation bodies and state CPA licensing boards. These challenges are likely made more difficult by the shortage of PhD-qualified accounting faculty currently available to colleges and universities.

### *Use of Professional Judgment*

The use of professional judgment is critical in the application of both U.S. GAAP and IFRS. However, IFRS represents an accounting and financial reporting framework that generally is considered to have less detailed implementation guidance than U.S. GAAP. With less detailed implementation guidance, preparers and auditors will be required to exercise professional judgment in additional areas under IFRS. A consequence of less detailed implementation guidance in an IFRS regime is that comparability may reflect a range of acceptable interpretations of the standards. Appropriate disclosures are necessary to provide for transparency relative to the application of the standards and significant assumptions made in applying the standards. Users and regulators must be prepared to accept reasonable judgments in the application of the standards, including in situations that may lead to differing outcomes in what appear to be similar circumstances, as long as sufficient transparency for users is achieved through appropriate disclosures.

### *Industry and Other Guidance*

IFRS does not have industry-specific guidance, as is the case for U.S. GAAP. While much of the industry-specific guidance can be described as additional guidance on the application of U.S. GAAP to the industry (e.g., guides for airlines and casinos), in some cases, notably investment companies and broker dealers, the guidance prescribes a fundamentally different accounting and reporting model than is applicable for other companies, with significant differences in presentation and disclosure, recognition and measurement, and consolidation principles. As a consequence, we believe that the timeline for conversion to IFRS by investment companies and broker dealers should include adequate time for the IASB and SEC to consider the appropriate financial reporting model for such entities. For other industries where specific industry guidance exists in U.S. GAAP but does not under IFRS, we believe that this consideration should not necessitate a delay in the application of IFRS by domestic issuers.

As the Commission noted in the Concept Release, the IASB also has not developed accounting standards for certain accounting topics. Areas for which guidance currently is limited under IFRSs include accounting for insurance contracts, extractive activities, and common control transactions. Additionally, the minimum line item requirements for the balance sheet and



income statement are less prescriptive than is currently the case for domestic issuers under the SEC's rules. We note that the IASB currently has projects on its agenda to address the accounting for insurance contracts, extractive activities, and financial statement presentation. While we do not consider the completion of these projects to be a condition for the adoption of IFRS by domestic issuers, we do believe that the SEC should actively encourage the IASB to give these topics high priority in pursuing their current agenda. However, as we believe that the ultimate objective is to have a single set of accounting standards as developed by the IASB, we believe that the SEC should not impose any additional reporting requirements within the audited financial statements beyond those required by IFRS.

#### *Other Potential Considerations – Use of LIFO*

The use of LIFO inventory method is not permissible under IFRS. However, there currently exists a “LIFO conformity” rule for U.S. taxpayers using LIFO for tax purposes. We understand that this LIFO conformity rule is not tied to U.S. GAAP but rather is tied to the entity's financial reporting to shareholders. As such, the SEC should work with the Internal Revenue Service to mitigate the consequences to domestic issuers having to adopt an inventory method other than LIFO for financial reporting purposes when adopting IFRS.

### **SEC Matters**

#### *SEC Rules, Regulations and Interpretations*

Before domestic issuers are permitted to adopt IFRS as part of a transition plan for the required adoption of IFRS, the SEC and its staff should comprehensively review its rules, regulations, and formal and informal interpretations and guidance to determine which would be applicable under IFRS and, if necessary, explain how those requirements apply to issuers preparing IFRS financial statements. Furthermore, because IFRS would provide the requirements for recognition, measurement, and presentation of information in the financial statements, the SEC's guidance should be directed at information presented outside the financial statements. Many of the SEC's rules and regulations and interpretive guidance (e.g., Regulations S-X and S-K, FRRs, SABs) are written either with specific references to U.S. GAAP or based on concepts and terminology used in U.S. GAAP.<sup>5</sup> In some cases, there is no comparable IFRS guidance (e.g., Instruction 1(C) to paragraph 503(d) of Regulation S-K which refers to FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*) whereas in other cases there is guidance in IFRS but the terms have different meaning than under U.S. GAAP (e.g., use of the term “probable” and “related parties”).

Additionally, the Concept Release specifically asks if SAB 99 *Materiality* and SAB 108 *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements*

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<sup>5</sup> See Center for Audit Quality Comment Letter on File Number S7-13-07, Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP, for a table that provides examples.



should apply to entities preparing financial statements under IFRS. Because the determination of materiality is not dependent on the specific accounting framework that is used for recognition, measurement, presentation and disclosure, we believe that domestic issuers should apply the principles of SABs 99 and 108 when considering whether errors in the application of IFRS are material. Furthermore, we encourage the SEC to work with the IASB in any efforts to develop more comprehensive guidance on the assessment of materiality in financial statements.

We also would expect these SEC requirements to be applicable to domestic issuers that apply IFRS:

- Requirements to present financial statements of other entities, e.g., guarantors of registered securities, significant acquirees and investees (Regulation S-X Rules 3-10, 3-05, 3-09 and 3-16);
- Requirements regarding the periods for which primary financial statements would be presented (Rules 3-01 through 3-04);
- Requirements for how *pro forma* financial information should be prepared including items for which *pro forma* adjustments are appropriate (Article 11 of Regulation S-X); and
- Requirements to disclose information outside the financial statements about reserve estimates in accordance with FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*.

While we encourage the SEC and its staff to undertake a comprehensive review of its rules and regulations and related interpretative guidance to determine their applicability to issuers using IFRS, we believe that in general the SEC should not prescribe additional information within the financial statements beyond that required by IFRS. To do so would be inconsistent with the goal of creating a single set of globally-accepted accounting standards issued by an independent standard setter (the IASB). However, the SEC and its staff should consider what additional information outside the financial statements (e.g., MD&A, disclosures required by FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*) is needed to ensure that investors continue to receive comprehensive information about domestic issuers.

#### *Extension of Safe-harbor Relief to IFRS 7 Disclosures*

We note that domestic issuers preparing financial statements in accordance with IFRS may be required to include some forward-looking information within the body of the audited financial statements when, for example, complying with the requirements of IFRS 7 *Financial Instruments: Disclosure*. We presume that users of IFRS financial statements understand that there is a different degree of uncertainty regarding such forward-looking disclosures as compared to historical information. Conceptually, we believe that it would be preferable to avoid providing safe harbors for disclosures provided within the audited financial statements. However, we believe that domestic issuers of financial statements prepared in accordance with





IFRS will be exposed to additional risk compared to domestic issuers that prepare financial statements in accordance with U.S. GAAP because similar information is provided outside the financial statements by domestic issuers using U.S. GAAP thereby permitting those domestic issuers safe-harbor protection. Therefore, we encourage the SEC to develop limited safe-harbor protection for forward-looking information that IFRS requires to be provided as part of the audited financial statements.

### *XBRL*

As recently announced by the SEC, the U.S. GAAP XBRL taxonomy for all financial-statement elements has been substantially completed, representing a major step in the SEC's objective to enhance financial reporting by registrants in electronic, more easily-accessible filings.<sup>6</sup> As the SEC staff develops its recommendations to the Commission by mid-2008 on the use of XBRL in filings with the Commission, the staff should evaluate the comprehensiveness of the IFRS XBRL taxonomy and related plans for maintenance and updating of that taxonomy. Specifically, the SEC should consider whether domestic issuers filing using IFRS would be able to use the existing IFRS XBRL taxonomy or whether further development or review of the IFRS XBRL taxonomy is necessary. Because the SEC may consider requiring domestic issuers to file financial information with the Commission using XBRL, the evaluation of the IFRS XBRL taxonomy and any modifications needed to that taxonomy should be incorporated in the SEC's new roadmap for use of IFRS by domestic issuers.

### **Effect on U.S. Capital Markets**

#### *Cost of Capital and Other Impacts on Domestic Issuers*

Domestic issuers converting from U.S. GAAP to IFRS would incur costs to adapt systems, train personnel, and gain the experience needed to efficiently and effectively apply the knowledge gained from training. Domestic issuers would need to develop a conversion plan including mapping and identifying areas of differences between U.S. GAAP and IFRS, quantifying those differences, and applying first-time adoption methodology as required by IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The process of conversion to IFRS also will likely result in increased audit costs related to the first-time adoption of IFRS. However, many of these activities would be one-time activities associated with the conversion of domestic issuers' financial reporting processes from U.S. GAAP to IFRS. Additionally, domestic issuers may incur costs to renegotiate debt agreements with lenders and others to permit periodic reporting in accordance with IFRS and to compute covenant provisions based on IFRS ratios.

Conversely, multi-national companies that are required to prepare local statutory financial statements for its subsidiaries may find that conversion to IFRS reduces their overall cost of

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<sup>6</sup> SEC Press Release 2007-200, SEC Chairman Cox Announces Landmark Progress in Providing Instant, User-Friendly Access to Financial Reporting Information for Investors, September 25, 2007, available at [www.sec.gov](http://www.sec.gov).



compliance if their records are maintained in accordance with IFRS. Furthermore, companies that access capital in multiple jurisdictions should likewise experience benefits from being able to access capital under one financial reporting regime. This would be offset, however, by the added costs if some domestic issuers are required to continue to prepare U.S. GAAP financial statements (e.g., bank regulatory filings, entities unable to re-negotiate lending agreements).

To facilitate the conversion process and address the related costs associated with conversion, the SEC should establish a sufficient transitional period for the financial reporting community, including educators, preparers, users, auditors and regulators, to develop more in-depth knowledge of IFRS. Additionally, the SEC should work with other regulators and key financial reporting constituents in the U.S. to encourage all financial reporting in the U.S. to move to IFRS (see section “Other Matters”).

### *Comparability of Financial Information*

Domestic issuers should have an interest in the comparability of their financial statements with competitors in the same industry. As more of the world’s capital markets receive financial information prepared in accordance with IFRS, use of IFRS by domestic issuers could facilitate investors’ ability to compare and understand the differences in the operations of companies in an industry. A domestic issuer whose competitors report financial information in accordance with IFRS therefore might choose to prepare its financial statements in accordance with IFRS if permission to do so were in place. Because of this benefit and because the choice to use IFRS should be part of a plan to ultimately require use of IFRS by all domestic issuers, we believe that during the elective period, issuers should not be permitted to switch back to U.S. GAAP once they have elected to adopt IFRS.

### *Impact on Users*

The use of IFRS in capital markets around the globe has increased significantly in the past few years with additional significant markets scheduled to begin using IFRS in the next few years. As a consequence, many investment decisions, including decisions by U.S. investors to invest in foreign debt and equity securities, are made about companies that provide IFRS financial information. However, at the present time, in-depth knowledge of IFRS in the U.S. is unlikely to extend beyond institutional investors, the senior analyst and credit-rating community, large accounting firms, and domestic companies that report in IFRS in foreign jurisdictions or to foreign parents. As discussed earlier, the transition to IFRS will need to be managed to allow time for preparers, auditors, users, and regulators to become more familiar with IFRS.

## **Transition and Timing**

As stated earlier, we believe that the SEC should establish a timetable (the “new roadmap”) for completion of the conditions needed to allow domestic issuers to use IFRS, followed by a short period whereby domestic issuers would be permitted to prepare financial statements using IFRS with mandatory adoption for all issuers phased in over a reasonable transition period.



Once the period of transition commences, we believe that large domestic issuers (e.g., large accelerated filers) should be required to apply IFRS first with the requirement for the application of IFRS being phased in for smaller issuers over a longer period. A phase-in approach would allow smaller companies with more limited resources additional time to undertake the training, systems development, and other steps necessary to adopt IFRS and also would allow the SEC to draw upon the experiences of early adopters.

In the process of first-time adoption of IFRS, issuers will have to address certain one-time elections within IFRS 1 which could make comparison between companies transitioning to IFRS difficult. This is an issue that has been dealt with in many other jurisdictions that have adopted IFRS. Detailed planning is important for preparers to adequately complete transition activities, including retrospective adjustment to prior period financial statements. Detailed disclosures surrounding transition to IFRS are important to inform users of the financial statements of the impacts of transition.

Upon issuance of a final rule regarding use of IFRS by domestic issuers, we would expect the SEC to provide guidance on the nature and timing of transitional disclosures, similar to those required under SAB 74, *Disclosure Of The Impact That Recently Issued Accounting Standards Will Have On The Financial Statements Of The Registrant When Adopted In A Future Period*. In connection with providing these types of disclosures, domestic issuers would describe the potential impact of applying IFRS by providing robust qualitative and quantitative disclosures within a set timeframe prior to adopting IFRS. The SEC's thinking can be informed by the experience in other markets that have adopted IFRS in determining the extent and timing of qualitative and quantitative disclosures by domestic issuers prior to adopting IFRS.

In addition to MD&A disclosures regarding the expected impact of adopting IFRS, domestic issuers should consider other broad communication and educational presentations to investors explaining the transition plan and its related timing. Upon adoption of IFRS, domestic issuers would be required under IFRS 1 to provide disclosures explaining how the transition from U.S. GAAP to IFRS affected its reported financial position, financial performance, and cash flows. Additionally, IFRS 1 requires a reconciliation from the amounts previously reported under domestic (U.S.) GAAP to IFRS of equity at the date of transition to IFRS and net income for the end of the latest period presented under domestic (U.S.) GAAP. Providing robust transparent disclosures to investors will help users better understand the impact of adopting IFRS and reduce guesswork in understanding unexplained or unanticipated transitional effects.

### **Legislative, Regulatory and Professional Standards Matters**

The U.S. securities laws give the SEC authority over the accounting standards used in issuers' filings. The SEC has designated the FASB as the independent standard setter for U.S. GAAP. We believe that the ultimate objective should be a single set of high-quality, globally-accepted accounting standards issued by the IASB. Therefore, we believe that the SEC should specifically acknowledge that in a fashion similar to its acknowledgement of the FASB and that IFRS should be applied as issued by the IASB without the use of a formal endorsement or other



approval mechanism. The SEC will need to consider whether legislative actions are necessary for it to be able to designate the IASB as the independent accounting standard setter, as well as any required structural changes to the IASB as discussed earlier in this letter.

### **Convergence Efforts between the FASB and IASB**

We believe that the IASB and FASB have identified many of the areas in U.S. GAAP and IFRS that are not converged. However, to date, progress on convergence has been limited. Our support for domestic issuers to use IFRS is not contingent on achieving a specified level of convergence between IFRS and U.S. GAAP; however, we believe that convergence efforts should continue to be a priority for the IASB and FASB until the time when domestic issuers are required to use IFRS. In particular, we believe that the Boards should make their projects on financial statement presentation, revenue recognition, classification of instruments as debt or equity, the conceptual framework, and fair value for all financial instruments their priorities.

We acknowledge that the IASB rather than the FASB would be the accounting standard setter once use of IFRS is mandatory. This would significantly change the FASB's role relative to domestic issuers and, perhaps ultimately for all U.S. business entities, if, consistent with the objective of a single set of globally-accepted accounting standards, private entities ultimately adopt IFRS. One possible role for the FASB in this scenario could be as a U.S. liaison to the IASB, presenting issues affecting U.S. companies, and conducting other research activities in support of U.S. companies. We believe that the SEC should work with the FASB to establish what role it should have once the IASB becomes the global standard setter.

### **Other Matters**

Because the ultimate goal is a single set of high-quality, globally-accepted accounting standards, during the period in which the SEC establishes the transition to an IFRS-only regime for domestic issuers and after, as needed, the SEC should work with other regulators and market participants to encourage the adoption of IFRS by U.S. private entities. Maintaining two sets of accounting standards in the U.S. would impose unnecessary costs on companies that are subject to statutory filings or other reporting requirements based on U.S. GAAP, and also on the users and auditors of these financial statements. Additionally, use of U.S. GAAP by private companies would significantly increase the cost of capital formation as private companies would need to go through a conversion to IFRS as part of the process of "going public".

The full benefits of a single set of accounting standards will be attained when that set is applied by all business entities, whether public or private. While we recognize that the SEC cannot mandate the use of IFRS by entities that are not issuers, we encourage the SEC to work with other regulators in the U.S. to encourage the use of IFRS for regulatory filings.

We also believe that convergence should be the goal for the development of auditing standards in order to promote rigorous and consistent application of IFRS on a global basis. We believe that the SEC should encourage the PCAOB to work with the International Auditing and



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Assurance Standards Board and the Auditing Standards Board to develop a single set of globally-accepted auditing standards. Converged auditing standards, coupled with consistent application and regulation of the standards, also can improve the efficiency of cross-border access to capital markets, and enhance investor confidence by having auditors in different countries apply the same standards in designing and performing audit procedures, and result in efficiencies for audit regulatory bodies' inspection of audit firm quality. To realize these benefits, we believe that the goal should be to achieve convergence of auditing standards by the time mandatory use of IFRS by domestic issuers is required.

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Given the ultimate goal of achieving a single set of high-quality, globally-accepted accounting standards, we believe that the SEC should allow domestic issuers to use IFRS, upon accomplishment of the conditions discussed in this letter and development of a new roadmap that would ultimately require use of IFRS by all domestic issuers. Doing so will help improve the comparability and transparency of financial information across the global capital markets. Additionally, we note that the Advisory Committee on Improvements to Financial Reporting is expected to provide its recommendations to the Commission in August 2008. As those recommendations may include the feasibility of adopting IFRS in the U.S. we would expect the Commission to consider those recommendations in developing rule-making on the application of IFRS by domestic issuers.

We appreciate the opportunity to submit our comments on the Concept Release. If you have any questions regarding our comments, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Mark Bielstein, (212) 909-5419, mbielstein@kpmg.com.

Sincerely,

KPMG LLP

cc:

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Ms. Nancy M. Morris  
Secretary, SEC  
November 9, 2007  
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