

November 13, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

**Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in
Accordance with International Financial Reporting Standards
Commission File No. S7-20-07**

Dear Ms. Morris:

Ernst & Young LLP is pleased to respond to the request by the Securities and Exchange Commission (the “Commission” or the “SEC”) for comment regarding the concept release (the “Concept Release”) on allowing U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”). The following are general comments with regard to the Concept Release. Our responses to individual questions are included in the Attachment.

In 2005, the Commission’s then Chief Accountant announced a ‘Roadmap’ that discussed and set forth a series of milestones to achieve the possible elimination of the U.S. GAAP reconciliation for foreign private issuers that use IFRS. With the issuance of the Commission’s recent rule proposal, that historic journey is nearing its destination. The Commission’s Concept Release on allowing U.S. issuers to prepare financial statements in accordance with IFRS signals the start of the next phase of the journey, continuing towards the ultimate goal of a single set of high quality global accounting standards. We commend the Commission on this initiative. To signify its strong commitment to IFRS as the single set of global accounting standards and to provide impetus to accelerate needed changes, we propose that the Commission make a clear statement that it will require all U.S. issuers to adopt IFRS as of a date certain. In proposing that IFRS be adopted by all U.S. issuers, we expect that the work of the IASB and other standard setters to converge and improve existing accounting standards will continue. The movement of the U.S. as the world’s largest capital market to IFRS is essential for IFRS to be recognized as a truly global set of accounting standards. Moreover, this definitive step by the Commission will elevate the urgency of completing the necessary changes in the financial reporting, regulatory, and legal systems to successfully achieve this ultimate goal.

Given the significant effort required for U.S. issuers to switch to IFRS, we believe that for this multifaceted endeavor to be successful, many changes, both internationally and within the U.S., will be necessary before that date certain arrives. In that regard, the IASB as the single global standard setter will need to make further improvements, both in its standards and its processes. Likewise, the acceptance and implementation of the IASB standards as the single set of global accounting standards will require efforts on the part of the Commission and U.S. Congress, including cooperation and collaboration with their international counterparts. These efforts and resulting changes will result in the benefits of a single set of global accounting standards, and moreover will encourage and accelerate a broader initiative by the global capital markets' regulators towards a more uniform and cohesive capital markets infrastructure while also enhancing the SEC's goal of investor protection. In the remainder of this letter, we highlight for the Commission's consideration some of the essential changes and actions on this journey to a single set of global accounting standards.

A Single Set of Global Accounting Standards

We agree with the Commission that having a widely used single set of high quality globally accepted accounting standards in place would benefit both the global capital markets and investors. A single set of high quality global accounting standards would facilitate efficient capital allocation decisions by simplifying comparisons among global investment opportunities. It also has the potential to result in a higher level of investor understanding and confidence, and thus a reduction in the overall cost of capital. The improvements to accounting standards resulting from the convergence efforts of the IASB and the FASB (the "Boards") have contributed to advancements towards the ultimate goal of a single set of global accounting standards. Going forward, we believe that the Boards should continue to focus on an improved conceptual framework and the broader issues, including those areas not currently addressed by IFRS (e.g., insurance and extractive industries) as well as the areas requiring fundamental changes in accounting (e.g., leasing and revenue recognition). We therefore strongly support the Boards' efforts and encourage them to focus their resources on continuous improvement and the completion of a single set of global accounting standards.

In positioning the IASB to be the single global standard setter, we recommend that the applicable regulator or standard setter focus attention in the following areas:

Improve the conceptual framework—One of the IASB's current projects is the improvement of the IFRS conceptual framework. There are acknowledged weaknesses in the existing framework, which result in certain standards that are not wholly consistent with the framework, as well as inconsistencies in the principles among standards. A framework that is complete, broadly developed to encompass changes in business practice and economic environments, internally

consistent, and otherwise improves upon the existing framework would provide a sound foundation for developing future accounting standards. This foundation is essential to fulfilling the IASB's goal of developing standards that are principles-based, internally consistent, and that lead to financial reporting that provides relevant information for investors and others.

Develop standards that minimize complexity—As the IASB develops standards, it is important that those standards reconcile with the applicable concepts in the framework and that all requirements in the standard are consistent with the relevant principles. A standard that clearly articulates the principles will limit choice to only appropriate applications and promote consistency. Moreover, as new standards are developed or existing standards are revised, understandability to the primary users of the resulting financial statements should be foremost in the minds of the IASB.

Develop a global funding mechanism—A global funding mechanism for the IASB, other than private contributions, should be developed that is commensurate and consistent with the role of the IASB as an independent global standard setter. Such a funding mechanism would allow the IASB to operate independently without undue political pressure.

Agree on the IASB Process—To achieve the objective of a single set of high quality global accounting standards, the SEC and other regulatory bodies throughout the world need to provide input on, and then accept, the process followed by the IASB to adopt IFRS, rather than the current regime of endorsements.

Actions Required in the U.S.

To facilitate the successful transition to a single set of global accounting standards that would be used in the U.S., we recommend that certain pervasive issues be given careful consideration at this time and the necessary changes made to the underpinnings of the financial reporting, regulatory, and legal systems. Although the transition to IFRS could conceptually take place without the completion of these efforts, we believe the result would be unsuccessful. The strong likelihood of the ensuing uncertainty, cost, and confusion that would result should be clear motivation to pursue making these changes in the U.S. before a mandated date for the use of IFRS arrives. Furthermore, timely progress in these areas will provide a strong foundation for U.S. issuers who would switch to IFRS in an optional period before a mandatory date of adoption. As the SEC reflects on changes that would facilitate the successful adoption of IFRS by all U.S. issuers, we recommend that the Commission consider, among others, the following:

Recognition of the IASB—There should be a clear and unequivocal recognition of the IASB as a standard setter of accounting principles that are generally accepted for purposes of U.S. securities laws. In our view, it is imperative that the SEC, with the concurrence of the U.S.

Congress, formally recognize the IASB under Section 19(b) of the Securities Act of 1933 (as added by Section 108 of the Sarbanes-Oxley Act of 2002). Otherwise, a U.S. issuer would face unacceptable uncertainty and undue cost in converting to IFRS.

The Legal and Regulatory Environment in the U.S.—In the current U.S. legal and regulatory environment, legitimate concerns exist as to whether professional judgments will be respected. We believe many U.S. issuers (and auditors) may be reluctant to leave behind the more ‘rules-based’ standards of U.S. GAAP that by their nature, in providing narrower interpretations and more specific and detailed guidance can at times provide a degree of protection from legal and regulatory second-guessing. Although the legal and regulatory systems in the U.S. are not solely responsible, certainly they have contributed to the proliferation of rules and thus the complexity of our financial reporting framework.

Today’s regulatory environment often belies the possibility that acceptable alternatives can be faithful to a principle. Good faith efforts by preparers and their auditors to apply more ‘principles-based’ standards will result on occasion in different conclusions reached by different professionals. An insistence on absolute consistency in application and on a single “right” answer determined by regulators would undermine the proper functioning of a more ‘principles-based’ set of standards. Stakeholders in an IFRS financial reporting environment would need to accept the importance of respecting reasonable professional judgments required to prepare and audit financial statements under a more ‘principles-based’ IFRS financial reporting framework. Accordingly, it is critical that our regulatory and legal environment respects the application of sound professional judgment for the acceptance of IFRS to ever become a reality in the U.S.

The SEC recently formed the Advisory Committee on Improvements to Financial Reporting (the “Committee”). The Committee is examining the U.S. financial reporting system and will provide recommendations about how to improve its usefulness for investors and reduce unnecessary complexity. As part of its efforts, the Committee is considering the framework within which professional judgment is exercised by preparers and auditors. We agree that the current risks of real-time professional judgments being second-guessed with the benefit of hindsight by the SEC, the Public Company Accounting Oversight Board (the “PCAOB”), litigants, and others are a major impediment to moving from a more ‘rules-based’ to a more ‘principles-based’ set of accounting standards. We are hopeful that the Committee will be able to develop actionable recommendations so that reasonable professional judgments are accepted and respected and believe that these efforts should be carefully observed and considered.

As auditors operate in this changing reporting environment, there will be a strong need for more reforms in both the legal framework and the nature of sanctions for enforcement actions. Concerns have been expressed that the present level of auditor liability could result in further concentration

of the industry. Various approaches have been set forth to reduce this risk, including a cap on auditor liability, proportional liability, and safe harbor for certain defined auditing practices. In that regard, the Treasury Department has formed a committee, chaired by former SEC Chairman Arthur Levitt and former SEC Chief Accountant Don Nicolaisen, to consider how to further strengthen the U.S. auditing system. The work of this committee should be instructive to the Commission and U.S. Congress when considering the reforms necessary for the legal and regulatory environment. The issue must be examined and addressed based on what is necessary and appropriate for the protection of the economy, the markets, and—above all—the investors.

SEC Guidance and IFRS—In its proposal to accept IFRS financial statements from foreign private issuers without reconciliation to U.S. GAAP, the Commission contemplated many of the operational issues involving the use of IFRS in SEC filings. In our comment letter responding to that proposal, we stated that it is important for the Commission to identify areas where U.S. GAAP pronouncements are referenced in its disclosure rules and to address the implications, if any, for issuers using IFRS. Separately, we recommend that the SEC perform a comprehensive review of its existing body of guidance on accounting and financial disclosure requirements (e.g., FRRs, ASRs, SABs, Industry Guides) to assess potential effects on issuers using IFRS. Further, in order to reduce the complexity of financial reporting, the SEC should eliminate any guidance that is redundant, no longer cost beneficial, or that does not elicit useful information for investors.

Providing U.S. Issuers with an Option—The movement towards a single set of global accounting standards that will be adopted by all U.S. issuers at a date certain is the ultimate goal. However, assuming the Commission finalizes the foreign private issuer reconciliation proposal, we believe that, as an intermediate step, the Commission could provide U.S. issuers the option to file financial statements prepared using IFRS as published by the IASB. Notwithstanding the availability of the choice to use IFRS, we expect U.S. issuers to be cautious in making a change to use IFRS for financial reporting until the reforms required to the current regulatory and legal framework in the U.S. are addressed.

The Global Capital Markets Infrastructure

A single set of global accounting standards is one component of effective and efficient global capital markets. Achieving the ideal global capital markets system necessitates improvements and harmonization in other aspects as well, including:

Progress towards a global set of auditing standards—Just as significant investment has occurred in converging accounting standards in the interest of developing a single set of high quality global accounting standards, a similar commitment is needed to the development of a single set of high quality global auditing standards. The development of a process to harmonize the various

national audit standards with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board should therefore be a priority.

Harmonize the oversight of auditors and enforcement of relevant auditing standards—Multiple regulatory and enforcement regimes increase complexity and the costs of performing audits, while diminishing the comparability of audits performed in different countries. Although legal enforcement rights are essential to national sovereignty, we believe that national regulators, issuers, and investors would benefit from more consistency among countries in these areas. In this regard, we support the mission of the Independent Forum of Independent Audit Regulators and urge strong support from the U.S. for such international collaborative efforts.

Harmonize the regulatory filing framework of the major capital market centers—The SEC should work closely with the International Organization of Securities

Commissions and other securities regulators to reduce the burden on global markets issuers by converging their respective filing and disclosure requirements, regardless of an issuer's country of domicile or principal exchange listing, to provide for more efficient capital formation and regulatory compliance globally. We understand that the SEC must think carefully about the consequences of globalization on the fundamental missions of investor protection, capital formation, and the maintenance of orderly markets. However, we believe that mutual recognition among the regulators is possible once a certain level of convergence has been achieved.

Conclusion

In summary, there is no question that a single set of high quality global accounting standards will benefit the global capital markets. A commitment by the U.S. to making the switch as of a date certain would be a strong impetus for positive changes to the financial reporting, regulatory, and legal systems, spurring improvements and benefits to the global capital markets system. The changes in mindset and the way that the financial community addresses accounting and financial reporting are important to achieving this vision. Financial statement preparers must be willing to interpret and apply the standards within the spirit of the principles and in a manner that best reflects the substance of the transaction and not just in the manner that produces the best results. Auditors must be willing to take a stand when they believe that their clients have not applied the standards in this manner. Regulators must be willing to accept that good faith professional judgments by companies and their auditors to apply the standards in this manner will not always result in a single right answer. Users have to make a better effort to become more involved in the standard-setting process, so that they have a better understanding of accounting principles and their effect on reported earnings. And legal and regulatory reforms must be forthcoming to foster an environment in which the financial community can make these changes.

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Our support for the achievement of a single set of high quality global accounting standards is unwavering, as is our strong belief that the foundation for a single set of global accounting standards must be a sound one.

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Attachment

We have organized our comments to respond to the specific issues on which the Commission seeks public comment. Our responses have been grouped to address together those questions that we believe have underlying similarities.

The Possible Use of IFRS by U.S. Issuers

The comments below address issues raised by the SEC in questions 1 through 8, 31 and 32.

With the movement toward a single set of global accounting standards that will be adopted by all U.S. issuers at a date certain as the ultimate goal, assuming the SEC finalizes its pending proposal to allow foreign private issuers to file financial statements prepared using IFRS without a reconciliation to U.S. GAAP, we believe that, as an intermediate step, the Commission could provide U.S. issuers with the option to file financial statements prepared using IFRS as published by the IASB. In our cover letter, we note several observations for the Commission's consideration as it contemplates the adoption of IFRS by U.S. issuers. In addition to those observations, we would note the following considerations related to providing a choice to U.S. issuers.

In general, we believe market forces will determine the timing of a U.S. issuer's decision to switch from U.S. GAAP to IFRS, once the SEC allows such a change. Those U.S. companies that conclude it would be beneficial to prepare their financial statements using IFRS might want to do so expeditiously. To assist registrants in this effort, and to encourage a robust adoption, the Commission should alert registrants to the key criteria for a successful and acceptable transition to IFRS financial reporting. In our experience, these criteria include:

- the availability of information to prepare comparative financial statements,
- due consideration and faithful application of IFRS 1, *First-time Adoption of IFRS* ("IFRS 1") elections, and
- implementation of systems of internal control over IFRS financial reporting to allow management to certify compliance with, and their auditors to report pursuant to, the provisions of Section 404 of the Sarbanes-Oxley Act.

Of course, each company must make its own determination of readiness; however, the Commission should remind registrants that the transition to preparing financial statements in accordance with IFRS should be performed in a measured and organized fashion that facilitates a high quality result.

The option to report using IFRS would provide an impetus for analysts, investors, and other market participants to improve their understanding of IFRS and could serve as an intermediate step toward a single set of global accounting standards. Many investors and analysts already are experienced with IFRS, particularly those who focus on industries where major foreign companies report using IFRS.

While the co-existence of two sets of reporting standards might seem suboptimal, two dominant sets of standards already exist in the marketplace. Many foreign private issuers already report using IFRS and publish those financial statements well in advance of filing the related U.S. GAAP reconciliation with the SEC. Consequently, market participants are compelled to use IFRS information in making investment decisions in the interim.

Concerns about reduced comparability between a U.S. issuer that elects to switch to IFRS and a competitor that chooses to continue to report using U.S. GAAP would be mitigated in the year of adoption. IFRS 1 requires additional transitional disclosures upon the first-time adoption of IFRS, including a reconciliation of income and shareholder's equity from former GAAP to IFRS. This transitional information should allow analysts and investors to assess an issuer's decision to convert to IFRS and the relative effects on its comparability to companies that report using U.S. GAAP.

The incentives and barriers for preparing IFRS financial statements will be unique to each U.S. issuer; each will have to make its own cost/benefit decision, considering the short-term costs of conversion against any net benefits over the long-term. In an industry where a U.S. issuer's competitors are primarily IFRS filers, it might be able to lower its cost of capital by choosing to file IFRS financial statements. A multinational company with significant operations in foreign jurisdictions that allow IFRS to satisfy statutory reporting requirements might be able to lower its overall cost of financial reporting compliance. Nevertheless, U.S. issuers will need to consider potential barriers presented by their other regulatory and contractual financial reporting requirements, which might still insist on U.S. GAAP. In transitioning to IFRS, issuers might have to request revised lending and covenant terms based on IFRS. In some cases, an issuer might have to bear the costs to maintain dual financial systems to support incremental statutory or contractual requirements. Investment companies assessing the IFRS option will face unique issues due to the underlying differences in accounting for certain investment holdings under IFRS. Many of the barriers noted above may be lessened considerably if the Commission commits to a date certain for the mandatory adoption of IFRS by all U.S. issuers. This commitment would provide the certainty that regulators, lenders, and preparers need to justify the investments in infrastructure and training that would facilitate incorporation of IFRS into their operations.

An additional barrier to a U.S. issuer potentially choosing to report using IFRS relates to the lack of safe harbor protection for forward looking information required to be included in IFRS financial statements. IFRS 7, *Financial Instruments: Disclosures* (“IFRS 7”) requires disclosure in the notes to the annual financial statements of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. Regarding market risk, IFRS 7 requires financial statement disclosure of, among other things, either a sensitivity analysis for each type of market risk exposure or a value-at-risk measure that reflects interdependencies among various types of market risks. There is no corresponding financial statement disclosure requirement in U.S. GAAP. Similar information is required for U.S. issuers by Item 305 of Regulation S-K. However, that information is subject to the safe harbor protection of the U.S. Federal securities laws. Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 provide safe harbor protection for forward-looking statements, subject to certain conditions and limitations. However, these statutory safe harbor provisions do not extend to forward looking statements “included in a financial statement prepared in accordance with generally accepted accounting principles.” As a matter of equitable treatment, we do not believe U.S. issuers that use IFRS should incur a higher exposure in private securities litigation just because IFRS requires more forward-looking disclosures in the notes to the financial statements than U.S. GAAP. Accordingly, we encourage the SEC to utilize its rule-making authority to extend the statutory safe harbor protections to the forward looking information required in the notes to financial statements under IFRS 7.

Convergence of IFRS and U.S. GAAP

The comments below address issues raised by the SEC in questions 9 through 12.

The FASB and IASB continue to progress towards convergence and the harmonization of U.S. GAAP and IFRS, the goal articulated in their 2002 “Norwalk Agreement.” These convergence efforts have followed two tracks. Under the first track, the series of short-term standard setting projects designed to eliminate differences in focused areas have at times been delayed as the underlying issues are fully explored and understood to be more significant. Under the second track, the Boards have simultaneously focused on the development of new common standards where their respective standards are each regarded as candidates for improvement (e.g., business combinations). Convergence toward more ‘principles-based’ standards has been challenging in the current legal and regulatory environment, which still drives preparers and auditors to want more ‘rules-based’ standards. As a result, convergence has advanced at a slower pace than originally expected. In addition, convergence to date has produced standards that still follow different styles and wording that could result in unintended differences in interpretation and implementation by preparers and auditors.

We strongly support the standard setters' efforts as a means to improve global capital formation. In our view, the convergence process should focus on those joint projects that will result in continued improvement to, and completion of, the standards. A collaboration of the Boards will result in high quality accounting standards that will ultimately smooth the transition to IFRS by all U.S. issuers.

Even with high quality accounting standards, there will continue to be questions in application and interpretation. To achieve the objective of a single set of high quality global accounting standards, the SEC and other regulatory bodies throughout the world should agree on a framework by which inconsistent applications and other issues suggesting the need for interpretative review of the underlying standard would be identified and referred to the International Financial Reporting Interpretations Committee or IASB for timely resolution. The ability of IFRS to integrate our markets is jeopardized if IFRS isn't applied faithfully.

A Single Set of Globally Accepted Accounting Standards

The comments below address issues raised by the SEC in question 13.

The globalization of capital markets and investment opportunities demands that regulators, standard setters, and others work toward the development of a single set of high quality global accounting standards. By providing U.S. issuers the option to use IFRS, the SEC would remove a regulatory barrier and demonstrate its support of this goal. And likewise, establishing a date certain for mandatory U.S. issuer adoption of IFRS would signify the SEC's full endorsement of IFRS as the single set of global accounting standards. A single set of high quality global accounting standards would facilitate efficient capital allocation decisions by simplifying comparisons among global investment opportunities. We agree with the SEC that the use of a single set of globally accepted accounting standards has the potential to result in a higher level of investor understanding and confidence, and thus a reduction in the overall cost of capital. As we note in our cover letter, this goal would be facilitated by improvements to be undertaken by the IASB, the Commission, and in various aspects of the existing global capital markets infrastructure, as well as a change in the mindset of participants in the financial reporting process, particularly changes in the regulatory and legal framework.

The International Accounting Standard Setter

The comments below address issues raised by the SEC in questions 14 through 17.

IFRS have been issued through a robust due process that is transparent to the public. The IASB, operating under the oversight of the International Accounting Standards Committee (IASC) Foundation Trustees, is comprised of technicians and practitioners from around the world who both serve on the IASB and contribute to the standards development process in other ways. We

expect that IFRS will continue to be issued through a robust due process by a standalone standard setter and broadly accepted, so long as a comprehensive infrastructure exists, including a sustainable funding mechanism and a framework for jurisdictional acceptance of the process underlying the issuance of IFRS.

In order to promote IFRS as the single set of high quality global accounting standards, in our view, each jurisdiction needs to accept the process followed by the IASB to adopt IFRS, rather than the current regime of endorsements whereby each new standard is explicitly approved by individual jurisdictions. We recognize that this would involve fundamental changes in the political and legislative processes in many countries. Accordingly, we encourage the SEC to work cooperatively and take an active role with other capital market regulators around the world in agreeing on the framework to accept the IASB standard setting process.

We do not believe that the SEC, or any other national capital market regulator, should unilaterally interpret IFRS. This will require all regulators, including the SEC and its staff, to exercise restraint in expressing views as to the application of IFRS to specific facts and circumstances. The SEC and its staff must be committed to a cooperative global approach to assessing compliance with IFRS, and they must be willing to accept, even with hindsight, the reasoned application of professional judgment. This also will require the SEC and the U.S. government to restrain from exercising, or threatening to exercise, the sovereign right to establish accounting standards for use within the U.S. However, we fully expect U.S. issuers that adopt IFRS, and other U.S. constituents, to be active and vocal participants in the IFRS standards setting processes.

We believe that the structural enhancements implemented by the IASC Foundation Trustees and the IASB in recent years have improved the Board's deliberative process. However, key to any standard setter's success is the ability to avoid undue political influence and remain independent and objective. Therefore, an important consideration is a reliable funding mechanism for the IASB in order to operate independently without undue political pressure. We understand that the IASC Foundation Trustees are currently developing a mechanism for public funding of the IASB's work via an assessment process through the global exchanges and we strongly support their efforts. With appropriate funding, the IASB can continue to have the resources required to have a full-time Board as well as the full complement of staff required in recognition of its increased workload.

IFRS Implementation—Education and Training

The comments below address issues raised by the SEC in questions 18 and 19.

IFRS training is currently conducted around the world, and numerous efforts are underway to enhance and expand this training. Over time, we expect IFRS will be appropriately integrated into U.S. college and university curricula. In the meantime, U.S. accounting professionals will necessarily rely on a combination of on-the-job training, continuing professional education, and periodic updates provided by accounting firms and others, in the same way they currently address new FASB standards. We believe the significant similarities in the basic principles of IFRS and U.S. GAAP, as well as continued convergence efforts, should mitigate the demands for additional education and training; however, we recognize the significance of the necessary investment in IFRS education and training. We also note that the commitment by the Commission to a date certain for mandatory adoption of IFRS would provide the impetus for a much faster and deeper integration of IFRS into both university and professional training curricula.

IFRS Implementation—Application in Practice

The comments below address issues raised by the SEC in questions 20 through 22.

All financial reporting frameworks—whether ‘principles-based’ or ‘rules-based’, require the use of professional judgment. Professional judgment is pervasive in the financial reporting process. In our view, the fear of “second guessing” has driven preparers and auditors of financial statements to request, and in turn, accounting standard-setters to develop, detailed ‘rules-based’ standards. As rules increase complexity, the exercise of professional judgment often focuses on determining where within numerous scope exceptions and conflicting guidance a transaction falls. If the Commission allows U.S. issuers the option to use IFRS, a relatively more ‘principles-based’ (less ‘rules-based’) set of accounting standards than U.S. GAAP, and more so, if mandatory IFRS becomes a certainty, the way that professional judgment is exercised necessarily will change. With less interpretative guidance for IFRS, the exercise of professional judgment will change from “which rule does or does not apply?” to “what is the appropriate application of the accounting principle in order to reflect the underlying economic substance of the transaction?”. As a consequence, participants in the financial reporting process will need to resist the temptation of taking a “show me where it says that I can’t do it this way” mindset when assessing the accounting for transactions.

Additionally, we are very concerned that regulatory bodies and potential litigants might continue to take today’s approach in evaluating, with the benefit of hindsight, professional judgments made during the real-time process of preparing and auditing financial statements. We strongly believe that the focus should be whether a reasonable good faith professional judgment was made, supported, and documented contemporaneously, not whether those judgments reflect the

ultimate preferences of regulators or even the predominant conclusions of other practitioners. In summary, all stakeholders will need to accept the critical importance of respecting reasonable professional judgments required to prepare and audit financial statements under the more ‘principles-based’ IFRS financial reporting framework. Therefore, we believe that additional reforms are needed to address the exposure of preparers and auditors to liability in private litigation, as well as structural clarity about the nature and extent of potential sanctions in regulatory enforcement actions.

As for investment companies, there are significant differences in the valuation and presentation of controlled investees under IFRS versus U.S. GAAP. However, those differences should not preclude the IFRS option or mandatory adoption for a U.S. investment company, as IFRS is a set of high quality accounting standards used by other investment companies globally.

IFRS Implementation—Auditing

The comments below address issues raised by the SEC in questions 23 through 26.

Audit firms with the resources to invest in the necessary training and infrastructure will be able to provide high quality audit services to U.S. issuers that prepare their financial statements in accordance with IFRS, regardless of whether the adoption of IFRS is voluntary or mandatory. With a more definitive mandatory move to IFRS by all U.S. issuers, an expanded number of audit firms will be able and willing to re-direct their resources to support IFRS issuers. This investment will facilitate the consistent and faithful application of IFRS globally, as audit firms leverage their international networks, bringing a unified approach through their audits to the application and interpretation of those standards.

Certain amendments or additions to existing professional auditing standards would be needed if U.S. issuers were allowed or required to prepare IFRS financial statements. Current auditing standards require the auditor to state in the auditor’s report whether the financial statements are presented in conformity with generally accepted accounting principles. The existing standards also indicate that the auditor’s professional judgment concerning the “fairness” of the overall presentation of the financial statements should be applied within the framework of generally accepted accounting principles. If U.S. issuers were allowed or required to prepare and file IFRS financial statements, the PCAOB auditing standards would need to be amended to recognize IFRS as promulgated by the IASB.

This could be accomplished by amending AU section 411, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles,”* to indicate that the auditor evaluates the fairness of presentation of the financial statements, in all material respects, in accordance with an applicable financial reporting framework, and recognize U.S. generally

accepted accounting principles and IFRS as promulgated by the IASB as acceptable frameworks. The existing standards of reporting could then be amended to indicate that the auditor's report would identify the applicable financial reporting framework under which the financial statements have been prepared.

In addition, U.S. auditing standards address certain specific accounting and disclosure topics not in the U.S. GAAP accounting framework (e.g., accounting standards hierarchy, going-concern basis of accounting, subsequent events). The PCAOB should consider updating its auditing standards to resolve any potential conflicts with IFRS.

IFRS Implementation—Regulation

The comments below address issues raised by the SEC in question 27.

In August 2006, the Committee of European Securities Regulators (“CESR”) and the SEC agreed that issuer-specific matters could be shared among the regulators, following set protocols. CESR and the SEC also agreed that their regular reviews of issuer filings would be used to identify IFRS and U.S. GAAP areas that raise questions in terms of high quality and consistent application. This information sharing infrastructure between the regulators appears to be a positive step; however, it will be necessary to see whether those processes function effectively and how they evolve over time.

IFRS Implementation—Integration with the Commission’s Existing Requirements

The comments below address issues raised by the SEC in questions 28 and 29.

There are areas of SEC guidance for which the applicability to U.S. issuers moving to IFRS could be unclear; we would encourage the Commission to consider these, including:

- IFRS filers generally are not required to follow Regulation S-X form and content requirements in their IFRS financial statements. We would expect that a U.S. issuer electing IFRS would be permitted to present its financial statements pursuant to International Accounting Standards (“IAS”) 1, *Presentation of Financial Statements*, similar to a foreign private issuer, with any other SEC-imposed disclosure requirements provided supplementally to its IFRS financial statements.
- The Commission’s definition of a non-GAAP financial measure contemplates that a U.S. issuer would always follow U.S. GAAP. Accordingly, the Commission should amend that definition to acknowledge that a U.S. issuer might elect to report using IFRS. In addition, current SEC rules forbid the presentation of a non-GAAP measure within the financial statements “unless the financial measure is required or expressly permitted by the standard-

setter that is responsible for establishing the GAAP used in such financial statements.” In our experience, IFRS do not require or expressly permit any non-GAAP financial measures to be presented in IFRS financial statements. Nevertheless, many foreign private issuers using IFRS present non-GAAP financial measures (e.g., by presenting certain sub-totals) within their financial statements, apparently without objection by the SEC staff. The Commission should revisit its rules and practices regarding the presentation of non-GAAP financial measures within IFRS financial statements, such that a U.S. issuer using IFRS will clearly understand whether the SEC will accept such disclosures.

- Although SEC staff accounting bulletins generally would not apply to an issuer using IFRS, foreign private issuers generally have looked to the guidance in Staff Accounting Bulletin 99, *Materiality* in assessing the materiality of misstatements. We would expect that U.S. issuers using IFRS would continue to do so.
- Although the disclosures required by IFRS generally are sufficient, we agree that issuers in the oil and gas sector of the extractive industry that use IFRS should be required to continue to comply with the disclosure requirements of Statement of Financial Accounting Standards No. 69, *Disclosures about Oil and Gas Producing Activities*, because we understand that the information is useful to investors and analysts that follow companies in the industry. We believe, however, that any incremental disclosure requirements should be made outside of the IFRS financial statements and should continue to be unaudited.

As discussed in our cover letter, a commitment by the SEC to require adopting of IFRS by all U.S. issuers at a date certain will, among other things, elevate the urgency of completing the necessary improvements in those areas not currently addressed by IFRS, as well as the areas requiring a fundamental change in accounting.

Regardless of whether the Commission ultimately allows or requires U.S. issuers to use IFRS, the Commission should allow the use of IFRS by foreign issuers that are not foreign private issuers. Further, those issuers should not be required to provide a reconciliation to U.S. GAAP if the Commission adopts its proposal to eliminate that reconciliation for foreign private issuers that use IFRS. However, until the SEC allows or requires U.S. issuers to use IFRS, we believe that such an accommodation should only be available to those foreign issuers that are subject to the laws of another jurisdiction that requires the use of IFRS, or if the foreign issuer is a subsidiary or investee of a foreign private issuer that has previously filed its IFRS financial statements with a U.S. GAAP reconciliation. In this manner, the Commission would reduce the cost of capital-raising for these issuers while maintaining consistent investor protection.

Historically, preparers of IFRS financial statements may find reference to SEC guidance (e.g., FRRs, ASRs, SABs, and Industry Guides) useful in the application of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (“IAS 8”). U.S. issuers using IFRS might be even more likely than foreign private issuers to use SEC literature in applying IAS 8. Accordingly, the Commission should be mindful of the potential indirect effects of its guidance on all issuers that use IFRS, particularly as it considers adopting any new guidance.

IFRS Implementation—Transition and Timing

The comments below address issues raised by the SEC in questions 30, and 33 through 35.

If the Commission provides U.S. issuers with the choice to file financial statements prepared using IFRS, each U.S. issuer’s audit committee, in conjunction with its management, should evaluate and conclude whether to switch to IFRS. In electing IFRS, a company should be prepared to disclose the reasons for the decision, the alternatives elected under IFRS 1, the cost of switching to IFRS and the expected effect on its financial statements. Based on our experience, numerous issues have arisen in the application of the first-time adoption rules in IFRS 1.

We do not believe that the opportunity to switch to IFRS should be limited to a particular time period. That is, once adopted, the IFRS option should have no expiration. As we noted above, the decision to move to IFRS is an individual one that each issuer will make based on its own cost/benefit analysis, which might change over time.

We cannot envisage all possible situations in which a U.S. issuer that elected IFRS might want to switch back to U.S. GAAP. Although we expect these situations to be unusual, there could be valid reasons for reverting to U.S. GAAP, such as a U.S. issuer divesting of its foreign subsidiaries. Therefore we do not recommend that the Commission preclude a U.S. issuer from switching back to U.S. GAAP. Rather, to deter issuers from switching back to U.S. GAAP for the wrong reasons, the Commission should require an issuer to justify the preferability of a change in accounting basis, and require an issuer to disclose what earnings and net assets would have been under IFRS in the year of conversion from IFRS to U.S. GAAP. In addition, in the event that the Commission commits to a date by which all U.S. issuers must use IFRS, we believe it would be rare and increasingly difficult for a U.S. issuer that had previously elected to adopt IFRS to justify a change back to U.S. GAAP shortly before the mandated adoption date.