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Good afternoon. I'm Jonathan Chadwick, SVP, Corporate Controller and Principal Accounting Officer of Cisco Systems. I am also a member of Financial Executives International's Committee on Corporate Reporting. However, the views I express today are my own and not necessarily those of FEI, CCR, or its members individually. I greatly appreciate the opportunity to participate in today's session.

As requested, the following are some introductory comments with regards to the professional judgment framework proposal described in the progress report, specifically developed proposal 3.4.

In general, we are very supportive of the SEC Advisory Committee on Improvements to Financial Reporting and its ongoing objectives to reduce complexity in financial reporting.

The focus on the user of the financial statements should be particularly beneficial and we encourage the Committee to continue to use this orientation as a very critical lens regarding the benefit of the proposed changes. Ensuring that financial statements have indeed become more understandable and useful should be considered an acid test for the success of this important effort.

We also appreciate the efforts of CiFIR to date, including the recent progress report and the 12 developed proposals in the report.

The progress report proposes that the SEC adopt a framework that would become the primary approach to the process of making a professional accounting judgment. The proposed framework contains components addressing a critical, good-faith thought process with the intention that its use may address (1) investors' lack of confidence in the use of judgment, (2) concerns from preparers and auditors that their efforts at reasonable judgments are respected, and (3) provide an agreement in principle on the criteria for evaluating reasonable judgment.

In our view the judgment framework not only is aligned to a principles based standards approach but is in itself a principles-based approach to the methodology of good decision making.

We should view the framework as the set of concepts and principles that define a "reasonable person's" approach to the application of judgment. We should not let it denigrate into a 'check the box' formality and we would be very much opposed to a codification of a set of rules for the judgment – making process. Its use should extend into the basic building blocks of both preparers and auditors and become an inherent

aspect of the training of accounting professionals. We believe that embedding the concepts from the framework into accounting degrees, the CPA exam and into ongoing training and development will bring positive impacts beyond the judgments themselves and will eventually improve the effectiveness of our financial reporting. Maintaining the spirit of what is intended is going to be key.

Among the potential elements of the thought process mentioned in the progress report are analysis of the transaction, review and analysis of the relevant literature, alternative views or estimates, consistency of application to similar transactions, and the appropriateness and reliability of the assumptions and data used.

It is important to note that in today's world, good companies are already following this type of framework. For example, when an emerging accounting topic arises or an accounting matter is significant, most companies are already going through an exhaustive process to support their conclusions. Typically, the analysis starts with gaining an understanding of the business purpose and the accounting guidance. Companies also are analyzing differing viewpoints, of which we note there can be many, and often writing white papers to support their positions. The documentation that is prepared to support a company's accounting position is discussed with its auditors and their audit committees.

While these steps may be viewed as "best practices", they are, in fact, necessary practices in today's complex environment. It is, perhaps, disappointing to note that the committee believes that such a fundamental framework does need to be adopted in whatever form, but we believe that it will be especially important as we relearn how to operate within a more principles-based standards environment, for example under IFRS.

Users of the framework for accounting judgment will be both financial statement preparers and auditors. Application of the framework should ultimately be inherent in both groups, but may require a change in mindset in going from a checklist mentality to one of judgment and principles. While today's accounting in the United States is more rules based, we do anticipate movement towards a principles-based approach with less specific guidance. This change in thought process will need to be supported by regulators in not second guessing reasonable conclusions and creating mistrust. We believe that this framework for decision-making can aid in preparation for this shift. As such, the SEC Advisory Committee recognizes that the framework would affirm that reasonable professional judgments can differ and that the differences do not suggest that one judgment is wrong and the other is correct.

In terms of documentation and disclosures, however, we should be careful that the application of the proposed framework does not create any additional documentation requirements per se, but that appropriate contemporaneous record keeping should be a natural outcome of its use. It is the substance of the decision-making process that we seek to improve and not simply the form.

The level and type of documentation may vary depending on the size and nature of the transaction and other relevant factors. Similarly, transparent disclosure of significant accounting judgments should be a natural outcome of the application of the framework, but again, we should be careful not to prescribe exact form.

As an example, we understand that there is no similar codified set of “rules” for making judgments in the IFRS world, but we observe that companies adopting IFRS are generally providing greater levels of explanation and disclosure regarding their accounting policies in the principles-based standards environments.

In summary, we are supportive of the broad efforts of CiFIR, including the progress report. A significant amount of progress has been made in a relatively short period of time. The judgment framework is a key outcome of these efforts. It is designed at the appropriate principles level and, in fact, is consistent with the practices at most companies today. As regulators, preparers and auditors we will all need to ensure that we do not have the unintended consequence of codifying it and denigrating into yet another element of check the box compliance. There should be good natural outcomes with respect to compliance, documentation, disclosures. We need to collectively remove the aura of mistrust that may exist as a basis for introducing the judgment framework. We should not view it as a safe harbor, except, perhaps, in the sense that reasonable, good-faith judgments made by preparers and auditors in accounting and financial reporting matters will be respected by regulators.

The judgment framework should be viewed as just good sound business practice and we should ensure that the principles and concepts are embedded in our respective organizations, especially as we contemplate the significant shift to IFRS over the next few years.

Thank you.