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Accounting Policies and Support

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

31 March 2008

File number 265-24, Advisory Committee on Improvements to Financial Reporting

Dear Ms. Morris:

We are pleased to provide the U.S. Securities and Exchange Commission's (SEC's) Advisory Committee on Improvements to Financial Reporting (the Committee) with comments on its progress report (the Report), dated 11 February 2008. We applaud the Committee for its transparent process, including the use of web casts for public deliberations and the solicitation of comments on its deliberations, meeting materials and the Report. We believe that open due process is the best mechanism for building a broad and strong consensus, which is a necessary ingredient for genuine change.

Convergence with IFRS

We support the Committee's objective to examine the U.S. financial reporting system (the System) in order to make recommendations designed to increase the usefulness of financial information to investors, while reducing the System's complexity to investors, companies and auditors. However, we believe that the Committee has put too little emphasis on convergence with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Committee acknowledges its support for the long-term goal of convergence and notes that it will discuss it in more detail later in 2008.

We believe that the Committee needs to do more to support the goal of convergence with IFRS and in this regard take a stronger view that conveys a sense of urgency. That is, we believe that the Committee should support a plan to converge with IFRS as soon as possible. The Committee's support of long-term convergence implies that IFRS adoption in the U.S. will be beneficial for U.S. investors, companies and other System participants and therefore that adoption should take place quickly and prudently. Further, we believe that many of the Committee's recommendations may have a significant impact on U.S. accounting standards.

The FASB has limited resources—those resources should be focused on joint projects with the IASB that have the potential to benefit investors for many years to come rather than on fixing accounting standards that will have a short, limited life. Further, that short-term focus may result in U.S. entities adopting major changes in U.S. GAAP only to adopt IFRS shortly thereafter. Lastly, the SEC's recent decision to eliminate the U.S. GAAP reconciliation requirement for foreign private issuers further supports the view that IFRS is a robust and complete set of accounting standards that produces high quality financial information that fairly reflects an entity's economic position and performance.

Given the reasons in the preceding paragraph, we believe that the Committee should recommend mandatory IFRS adoption in the U.S with a reasonable period of time for preparation/transition. A three-year period would be consistent with the timeframe that the European Union provided to E.U.-based entities for IFRS adoption. The Committee also should consider critical elements and key milestones in a roadmap for IFRS adoption in the U.S. We believe that a strong statement by the Committee supporting such a plan along the indicated timeframe would be important for capital market participants in both the U.S. and the rest of the world. We look forward to the Committee's future discussions on convergence with IFRS. We hope that the Committee will take a stronger stand on convergence, which will benefit U.S. investors and other capital markets participants.

Other Matters related to Developed Proposals

We have reviewed the Report's developed proposals. We have decided to focus our comments on a limited number of those proposals.

Alternative Accounting Policies

We understand the rationale for the Committee's proposal that formally promulgated alternative accounting policies should not exist. We find the Committee's discussion of management intent to be helpful. We are proponents of the view that management's intent is the basis for economic transactions that have different profit-making objectives. Those different profit-making objectives should be accounted for differently, for example, if a security is bought with the intention of selling it in the near term versus one bought with the intention of holding it to maturity. Therefore, such accounting alternatives provide a reporting entity with the ability to fairly reflect its economic activities.

The Committee has concluded that accounting based on management intent is too dependent on facts and circumstances to be dealt with in the time given to the Committee to perform its work. We believe that investors and other users of financial statements understand that management's intent is an important attribute in determining a transaction's appropriate accounting. We believe that the Committee should discuss this issue further with its members that are investors and consider whether those investors' views support accounting alternatives based on management's intent (especially with regard to accounting for financial instruments).

We believe that the developed proposal is misleading because it does not adequately explain the Committee's view regarding alternative accounting policies based on management's intent. The developed proposal should make explicit mention that it does not deal with accounting alternatives based on management's intent. In its current form, a reader could easily conclude that all accounting alternatives, regardless of basis, should be eliminated. We recommend that the Committee clarify the intent of the developed proposal.

Improving the Timeliness of the Standard-Setting Process

The Committee's proposal makes a number of recommendations designed to improve the "timeliness" of the standard-setting process. Those recommendations include investor reviews, enhanced cost-benefit analyses, required field visits and field tests, post-adoption reviews and other periodic assessments. We agree with the objective of improving the timeliness of the standard setting process; however, the adoption of one or more of those recommendations will likely increase the amount of time required to promulgate a standard. Given the objective of convergence with IFRS and the FASB's limited resources, we question whether proposing modifications to the FASB's due process is the most effective and efficient means of realizing that objective. Additionally, we note that the IASB has already implemented similar changes in its process; we believe that those changes strengthen an already robust due process.

The Committee has proposed the creation of a formal Agenda Advisory Group (AAG) to provide input on the FASB's agenda. The FASB's Financial Accounting Standards Advisory Council (FASAC) provides that same input. The FASAC is composed of a diverse group of highly qualified individuals representing most capital markets participants; it also includes observers from the SEC and the PCAOB. We believe that the FASAC performs an important function, and therefore we are confused about the role the AAG would perform and question whether the AAG is necessary.

If the developed proposal regarding the AAG is retained, we believe that the developed proposal needs to explicitly mention that the FASB is responsible for its own agenda setting. We also recommend that the Agenda Advisory Group meetings should be held in public forum and this attribute should be explicitly noted in the proposal. The Report mentions that the AAG may be convened on short notice to discuss urgent matters. In that event, we believe that a full report should be made available publicly as soon as possible. That standard of transparent operation is consistent with the FASAC's operating parameters.

Clarifying the Role of U.S. GAAP Interpretation

We believe that formal interpretive guidance regarding U.S. GAAP and IFRS should be issued only by the FASB and the IASB, respectively. We support the Committee's view that national regulators must refrain from issuing interpretive guidance. This issue is especially important for IFRS. We believe that the Committee should consider this issue further with respect to IFRS. Regulators must work hand-in-hand with the IASB to preclude the development of jurisdictional interpretations (supported by national regulators) that would imperil the global nature of IFRS.

Materiality

We believe that the guidance on materiality in SAB 99 and SAB 108 is comprehensive and provides a good basis to make materiality assessments. In our experience, that guidance is useful and provides appropriate principles for reaching conclusions. We believe that additional guidance on materiality related to interim financial reporting and other issues noted by the Committee would be beneficial. However, we think that materiality is an accounting concept. It is discussed in the FASB's Conceptual Framework and every FASB-issued statement contains the caveat that "the provisions of [the] statement need not be applied to immaterial items." Therefore, we believe that the FASB should issue a comprehensive standard on materiality and its application. We do not believe that the SEC should be responsible for the promulgation of that guidance.

Judgment Framework

We support the development of a judgment framework. We believe that a formalized framework would be beneficial to all System participants as it would provide a transparent, principled approach for reaching conclusions. We also believe that the SEC and the PCAOB should evaluate whether the use of such a framework could provide the basis for a legal or regulatory safe harbor. We encourage the Committee to further discuss that last matter with both the SEC and the PCAOB.

In conclusion, we strongly encourage the Committee to strengthen its position on convergence with IFRS. We believe that a single, high quality set of global accounting standards is highly beneficial to investors and other market participants. We believe that that set of standards will reduce an entity's cost of capital, increase shareholder returns and enhance understandability and comparability of financial reporting.

If you have any questions about our comments, please call William Widdowson at +41.1.234.5565 or John Gallagher at (203) 719-4212. We would be happy to discuss them with members of the Committee.

Regards,

UBS AG

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