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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

12 November 2007

File No. S7-20-07; Release No. 33-8831; 34-56217; IC-27924; *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards*

Dear Ms. Morris:

UBS AG appreciates the opportunity to comment on the above referenced concept release, in which the Securities and Exchange Commission ("SEC" or the "Commission") is gathering information about the extent and nature of the public's interest in allowing U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"). We are grateful for the SEC's commitment to the "Roadmap" and leadership role in facilitating the ultimate establishment of a single set of high quality globally accepted accounting standards.

UBS, headquartered in Switzerland, is one of the world's leading financial firms, providing a broad range of financial services including advisory services, underwriting, financing, market making, asset management, brokerage, and retail banking. UBS has global registered shares listed on the Swiss, New York, and Tokyo Stock Exchanges. Therefore, in addition to preparing group financial statements in accordance with IFRS, we reconcile to US GAAP. We also prepare parent bank financial statements in accordance with Swiss GAAP. Thus, we are keenly aware of the need for high quality financial reporting standards that enable international comparability of financial statements.

Effect of IFRS on the U.S. Public Capital Markets

IFRS is a high quality set of accounting standards that provides investors and creditors throughout the world with high quality financial information needed to make economic decisions. That information is the basis for effective investor decision-making and efficient markets. The experience of other jurisdictions around the world that have adopted IFRS demonstrates that capital markets have transitioned smoothly and effectively: in fact, those markets have blossomed, capital formation has occurred at a growing rate and no harm has

come to investors. That experience confirms that IFRS provides the basis for high quality financial reporting required for the efficient and orderly functioning of capital markets. We firmly believe that the U.S. experience with IFRS will be similar to that of those other jurisdictions.

We recommend that an option should be provided to US registrants to prepare their financial statements in accordance with IFRS as part of an integrated plan that would transition all US registrants to IFRS at a future date. The FASB's response to the Concepts Release makes a similar recommendation. We believe that this is the best mechanism by which a single set of high quality globally accepted accounting standards can be achieved. A comprehensive transition plan should be developed that takes into account the needs of all financial statement users as well as relevant federal and state regulators (including taxation authorities). A sufficient transition period should be provided for the execution of that plan. We believe a period of five years should be sufficient to ensure a smooth transition.

We note that the FASB's role would change when IFRS is adopted in the US. However, during the transition period the FASB should continue to participate in the development of high quality standards. Even after IFRS is adopted in the US, we believe that the FASB will continue to provide an important role, albeit a different role. In this new role, we would expect the FASB to perform research and development projects on behalf of the IASB and to maintain an active dialogue advising on IFRS implementation issues arising in the US. We also believe that the FASB should play a key role in developing investor educational materials on IFRS and how it is different from US GAAP. Those materials would be critical for helping US investors not familiar with IFRS become proficient.

Convergence of IFRS and US GAAP

We recognize the extraordinary efforts of the IASB and FASB to converge IFRS and US GAAP. The Norwalk Agreement¹ and subsequent Memorandum of Understanding² have provided the basis for those efforts. For convergence efforts to continue during the transition period referred to above, we recommend that the IASB and FASB extend and update the objectives of the Memorandum of Understanding. We encourage the Boards to focus all their attention on the areas of accounting in greatest need of repair, for example, consolidation, derecognition, leases, and revenue recognition.

The Case for a Single Set of Generally Accepted Accounting Standards

One of the most important issues facing the global capital markets today is the establishment of a single set of high quality, globally accepted accounting standards. The demand for that single set of standards is driven by the strong desire for internationally comparable financial information that investors and other capital providers find useful for economic decision making. It also is driven by a strong desire to reduce the global cost of capital inter alia by reducing unnecessary regulations that require the reporting of information that is not used by investors in their decision making. We believe that those merits speak for themselves. In our opinion, the case for a single set of generally accepted accounting standards was overwhelmingly made many decades ago with the establishment of the Board of the International Accounting Standards Committee in 1973.

¹ Memorandum of Understanding between IASB and FASB (the "Norwalk Agreement"), 29 October 2002.

² A Roadmap for Convergence between IFRSs and US GAAP—2006–2008; Memorandum of Understanding between the FASB and IASB, 27 February 2006.

The International Accounting Standard Setter

An independent accounting standard setter and a robust, open due process are two conditions that are necessary for high quality, bias-free accounting standards. IFRS are developed and established under those conditions. Those conditions have been key considerations for the many jurisdictions all over the world that have adopted IFRS. One critical element for independence is sustainable, long-term funding. The trustees of the International Accounting Standards Committee Foundation (IASCF), the IASB's parent organization, have been exploring that issue. We urge the SEC to take the necessary steps that will enable the U.S. to make a long-term funding commitment for its equitable portion of the IASCF's and IASB's operating costs. That type of commitment will promote and enhance the IASB's independence.

The IASCF trustees recently announced an initiative to strengthen the independence of the IASCF and the IASB while at the same time improving accountability to governmental regulators tasked with market and investor protection. That initiative would establish an oversight body responsible for approval of trustees and review of IASCF performance against its constitutional objectives. We support the establishment of that body and look forward to providing further commentary as an interested constituent in the next IASCF constitutional review.

Education and Training

The European Union (EU) provided a three-year transition period during which time auditors, preparers, regulators, and investors successfully prepared to work with IFRS. During that time, we understand that audit firms developed training programs and materials for auditors and their clients. The UK-based Association of Chartered Certified Accountants (ACCA) developed a certification program for IFRS. Many other training programs and educational materials were developed in each national jurisdiction. Consequently, the market demand for expertise was satisfied. To reiterate, we believe that a comprehensive transition plan is needed with a sufficient transition period. As in the EU's case, we expect that US auditors, preparers, regulators, investors, and educators will be prepared.

Auditing and Application in Practice

We would like to point out that audit firms with global operations are technically proficient in IFRS and have many years of IFRS audit experience. That knowledge and experience can be leveraged to prepare their US audit operations. Additionally, that knowledge and experience will enhance consistency of IFRS application as we expect that the national technical offices of those audit firms would respond in a consistent manner to IFRS interpretative issues.

Regulation

The Commission should continue to monitor and observe the IASB's standard setting activities. Regular and frequent communications with the IASB and IFRIC will provide the requisite basis for successfully dealing with issues of mutual interest. In addition, the SEC must provide leadership in IOSCO and in use of the IOSCO IFRS database when it comes to resolving differing views on IFRS interpretational issues.

We are concerned that the SEC may become too involved in the interpretation of IFRS. The SEC has interpreted and changed US GAAP many times in the past. SEC speeches at annual SEC/AICPA conferences and SEC staff accounting bulletins are examples of that activity. The

SEC must resist the urge to unilaterally interpret IFRS as such interpretations may lead to a US jurisdictional version of IFRS. Instead, the SEC should work within the confines of IOSCO and established communication channels with the IASB and IFRIC to find acceptable solutions. Principles-based standards may not always result in a clear answer. In light of that ambiguity, disclosures must serve as an important mechanism to ensure that investors understand how significant transactions have been accounted for by an entity.

It will be important for the Commission to participate in the following activities in regards to the IASB:

- Identify potential issues to be presented to the IASB when considering agenda items.
- Provide input throughout a standard-setting project's due process period by responding to requests for comments and discussing significant issues in its regular meetings with the IASB and IFRIC.
- Communicate interpretation issues as they arise to the IASB, the IFRIC and IOSCO for resolution.

We would like to emphasize that the creation of jurisdictional IFRS will not benefit global capital markets as comparability among financial statement preparers will not be achieved. We strongly recommend that national and supranational securities regulators throughout the world resist the urge to create jurisdictional IFRS and, instead, fully participate in the IASB's open due process. We are active participants in that process and we emphatically state that it works.

Once again, we greatly appreciate the opportunity to comment on the very important issues discussed in the Concepts Release. If you would like to discuss any comments that we have made, please do not hesitate to contact William Widdowson at +41 44-234-4522 or John Gallagher, 203-719-4212.

Regards,

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