THE OHIO SOCIETY
OF CERTIFIED
PUBLIC
ACCOUNTANTS

SEC CONCEPT RELEASE
ALLOWING U.S. BASED ISSUERS TO FILE IFRS BASED FINANCIAL REPORTS

November 12, 2007

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-20-07: SEC Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards

A task force of The Ohio Society of CPAs reviewed the SEC Concept Release and submits the following comments for consideration.

Questions

1. Do investors, U.S. issuers, and market participants believe the Commission should allow U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB?

There should not be any movement to IFRS by U.S. issuers without an extended transition period, in order to achieve the capacity for preparers, regulators, auditors, investors and other financial statement users to function cost efficiently and effectively in a dual IFRS/U.S. GAAP financial reporting environment.

For U.S. based companies, it is very likely requirements from various organizations (i.e. tax authorities, banks, etc.) will result in a need for dual reporting systems capability to support use of both U.S. GAAP and IFRS.

For multinational corporations, this action would enable them to use IFRS based reporting to meet their financial reporting needs both in the U.S. and elsewhere.

We recommend development of a timetable, at the end of which there would be one approach (a globally accepted set of accounting standards) in place for issuers filing statements with the SEC. This approach would be

535 Metro Place South
Box 1810
Dublin OH 43017-7810

614/764-2727
800/686-2727
FAX: 614/764-5880

Member Service Center:
614/791-1212
Toll Free: 888/959-1212

http://www.ohioscpa.com

preferable to allowing a permanent buffet approach for adoption and use of IFRS or U.S. based GAAP.

2. What would be the effects on the U.S. public capital market of some U.S. issuers reporting in accordance with IFRS and others in accordance with U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? For example, would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Would comparative advantages be conferred upon those U.S. issuers who move to IFRS versus those U.S. issuers who do not (or feel they can not)? Would comparative advantages be conferred upon those investors who have the resources to learn two sets of accounting principles (IFRS and U.S. GAAP) as compared to those who do not?

This action would support a more efficient and attractive U.S. capital market as part of the overall global capital marketplace. To ensure preparers, investors, other financial statement U.S. users, auditors and regulators are prepared for this move, a transition timetable and supporting actions are needed. An inadequate timetable and transition may leave financial statement users shortchanged as they struggle to understand IFRS versus U.S. GAAP differences.

This movement will place pressure on smaller publicly held companies, or those entering the capital markets, to support dual reporting systems. Local reporting requirements (bank covenants, tax return preparation, etc.) will likely continue based on U.S. GAAP, while efforts to support IFRS reporting will result in a "double set of books" being maintained by the organization.

3. What would be the effects on the U.S. public capital market of not affording the opportunity for U.S. issuers to report in accordance with either IFRS or U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? Would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Alternatively, are there certain types of U.S. issuers for which the Commission should not afford this opportunity?

Not affording this opportunity may leave the U.S. capital markets in a isolated position with its unique U.S. GAAP requirements, while other global capital markets use IFRS based financial reporting. This impact will be felt primarily by large, multinational companies, which operate in the global capital markets.

We also note that today there is not truly a "pure" IFRS approach uniformly in place in the world and that some countries still require their own "unique" IFRS adaptations to be used.

4. To what degree would investors and other market participants desire to and be able to understand and use financial statements of U.S. issuers prepared in accordance with IFRS? Would the desire and ability of an investor to understand and use such financial statements vary with factors such as the size and nature of the investor, the value of the investment, the market capitalization of the U.S issuer, the industry to which it belongs, the trading volume of its securities, or any other factors?

While some investors and participants may adapt easily, a move without an adequate timetable and transition may leave many others confused and concerned. Concerns revolve on lack of understanding, lack of comparability, and potential anxiety over reliability in a "principles based"

IFRS approach. There has been a lot of change in the past few years in the U.S. financial reporting environment. This move would introduce significant additional change for many participants in the financial reporting process.

5. What immediate, short-term or long-term incentives would a U.S. issuer have to prepare IFRS financial statements? Would the incentives differ by industry segment, geographic location of operations, where capital is raised, other demographic factors, or the aspect of the Commission's filing requirements to which the U.S. issuer is subject?

It creates a common IFRS benchmark (IFRS as published by the IASB) for companies located outside the U.S. and U.S. issuers. The largest incentive will be for the multinational companies, large and small, in reducing their dual financial reporting efforts and costs.

This move would ease the efforts associated with cross-border business acquisition and disposition activities.

6. What immediate, short-term or long-term barriers would a U.S. issuer encounter in seeking to prepare IFRS financial statements? For example, would the U.S. issuer's other regulatory (e.g., banking, insurance, taxation) or contractual (e.g., loan covenants) financial reporting requirements present a barrier to moving to IFRS, and if so, to what degree?

Barriers include:

- **Lack of technical knowledge of IFRS**
- **Need to convert comparative history**
- **Ability of auditors to perform cost effective IFRS based audits**
- **Continued requirement for dual U.S. GAAP reporting by regulatory agencies (i.e. federal and state/local tax authorities, banks, Federal Energy**

Regulatory reporting, etc.) and/or changes in reporting requirements by those entities.

- **IFRS does not allow the LIFO inventory method, while it is permitted for both book and tax purposes in the U.S. Adopting IFRS as a single approach may lead to changes in our tax laws or permanent "differences" in reporting systems for U.S. book and/or tax purposes.**
- **In securitization accounting (impacting financial institutions and the issue of what is permitted as off-balance sheet treatments) in the U.S., we note that IFRS is a lot stricter in approach. This area may require changes in views and approach in this area.**
- **A similar IFRS versus U.S. GAAP difference exist in financial statement consolidation approaches, which will require major change in the U.S., or resolution of those differences in IFRS.**

7. Are there additional market forces that would provide incentives for market participants to want U.S. issuers to prepare IFRS financial statements?
We believe there would be some "goodwill" generated in world opinion because it would look like the U.S. is cooperating with the world instead of trying to get the world to convert to our standards.

8. Are there issues unique to whether investment companies should be given the choice of preparing financial statements in accordance with IFRS? What would the consequences be to investors and other market participants of providing investment companies with that choice?
In securitization accounting in the U.S. (impacting financial institutions and the issue of what is permitted as off-balance sheet treatments), we note that IFRS is a lot stricter in approach. This area may require changes in U.S. views and approach in this area, or resolution with IFRS or a modified IFRS approach in the U.S.

9. Would giving U.S. issuers the opportunity to report in accordance with IFRS affect the standard setting role of the FASB? If so, why? If not, why not? What effect might there be on the development of U.S. GAAP?

This move would "leapfrog" the FASB in its standard setting process, and its ongoing efforts to converge. It would possibly contribute to a splintering of U.S. accounting standards, with separate standards being used for private versus publicly held companies. We believe such a divisive accounting standards environment in the U.S. would not be beneficial long term to preparers, financial statement users, auditors or regulator/tax authorities.

10. What are investors', issuers' and other market participants' opinions on the effectiveness of the processes of the IASB and the FASB for convergence? Are investors and other market participants satisfied with the convergence progress to date, and the robustness of the ongoing process for convergence?

Some parties consider the FASB/IASB convergence efforts to have been too slow and passive. Other parties are concerned that convergence needs to be done in a thoughtful manner, with appropriate actions to support changes implemented. We believe a convergence timetable should address the concerns of all audiences, with reasonable timing, commitment, and approach to achieving full convergence in the foreseeable future.

11. How would the convergence work of the IASB and the FASB be affected, if at all, if the Commission were to accept IFRS financial statements from U.S. issuers? If the Commission were to accept IFRS financial statements from U.S. issuers, would market participants still have an incentive to support convergence work?

We believe convergence efforts on U.S. GAAP would be harmed, and it is more likely there would be a financial reporting world with splintered GAAP references.

12. If IFRS financial statements were to be accepted from U.S. issuers and subsequently the IASB and the FASB were to reach substantially different conclusions in the convergence projects, what actions, if any, would the Commission need to take?

On issues where the SEC deemed those differences to be significant, the SEC should evaluate and make a determination as to which standards are better suited to meet the needs of financial statement users. If in fact an adjustment to IFRS were deemed required by the SEC based on an "exception" position as taken by the FASB, that exception should apply to all IFRS financial reports provided to the SEC. We note such a "modified" approach to IFRS exists today in several locales in Europe, where national governments similarly have required differences in reporting. A modified IFRS approach in the long term is a slippery slope that could affect uniform comparability.

13. Do investors, issuers and other market participants believe giving U.S. issuers the choice to prepare financial statements in accordance with IFRS as published by the IASB furthers the development of a single set of globally accepted accounting standards? Why or why not, and if so, how?

In the long term, it serves to focus on the need to have a common international accounting language that supports a world capital market, where investment flows move easily across borders. By accepting financial statements prepared using IFRS as published by the IASB, the SEC accepts both IFRS and U.S. GAAP. FPIs who follow other accounting standards could then be allowed to reconcile their financial statements to either IFRS as published by the IASB, or to U.S. GAAP.

A key decision will be whether IFRS will be accepted in its pure form, or a modified form with U.S. exceptions as mandated through the Commission.

In such instances, we believe that a modified IFRS to pure IFRS reconciliation as a disclosure requirement could be beneficial to users of such financial statements.

14. Are investors, U.S. issuers and other market participants confident that IFRS have been, and will continue to be, issued through a robust process by a stand-alone standard setter, resulting in high quality accounting standards? Why or why not?

IFRS is a high-quality set of global accounting standards commonly used across many industries and countries. The IASB is established as a stand-alone standard-setting body established to develop global standards with a robust process for selecting board members and developing standards to support the issuance of high-quality accounting standards. The IASB is comprised of individuals with a wide variety of accounting technical skills and experience. Several potential concerns exist with regards to the standard setting process as follows:

- **Low representation of the U.S. in the IASB**
- **IASB funding and oversight**
- **The impact of political pressure on the IASB**

15. Would it make a difference to investors, U.S. issuers and other market participants whether the Commission officially recognized the accounting principles established by the IASB?

Yes, endorsement by the SEC would have a profound impact on the U.S. accounting standard setting process.

16. What are investors', U.S. issuers' and other market participants' views on how the nature of our relationship with the IASB, a relationship that is different and less direct than our securities laws?

The potential impact of political influence and pressure on the IASB is a concern.

Another key question is whether the U.S. can accept a pure IFRS approach using principle based accounting standards, with greater judgment versus detailed guidance to handle application of those standards. If not acceptable, this IFRS conversion will likely result in an increased level of specific SEC direction in accounting standards to compensate for the general nature of the IASB framework.

17. In what ways might the Commission be able to assist in improving investors' ability to understand and use financial statements prepared in accordance with IFRS?
Emphasis on understanding U.S. versus International GAAP differences would greatly assist this process. This view of IFRS versus U.S. GAAP should be reinforced through our educational system, through practice development (via such bodies as the Center for Audit Quality), and through SEC initiatives (such as an SEC "white paper" on IFRS versus U.S. GAAP). Communication is critical by the SEC and the PCAOB of the acceptance of general principle based accounting standards, and of the greater reliance on judgment involved in the application of those standards.

18. What are the incentives and barriers to adapting the training curricula for experienced professionals to address both IFRS and U.S. GAAP? Separate from ongoing training, how long might it take for a transition to occur? How much would it cost?
An effective transition might extend over five to seven years, with phased in preparation and training to be accomplished over that timeframe. At the end of this period, all publicly held companies should be required to use the same accounting standards approach in their financial reporting filed

with the Commission. This approach provides incentive to adopt required training of professionals. It is similar to that being used in the rollout of Sarbanes-Oxley.

We don't have any basis for estimating total cost of retraining experienced professionals to achieve this change.

One barrier may be age or lack of interest (if CPAs are approaching retirement, they may not be interested in learning new set of standards.). Existing CPAs would have to be retrained. This should be reinforced by making IFRS training a required part of their professional education requirements (for those in practice serving public companies, or working in public companies) via actions by professional licensing bodies. Educational and curriculum changes, CPA exam changes, etc. can be made to support the profession working with IFRS.

19. What are the incentives and barriers relevant to the college and university education system's ability to prepare its students for a U.S. public capital market in which U.S. issuers might report under IFRS? What are the incentives and barriers relevant to changing the content of the Uniform CPA Examination? How should the Commission address these incentives and barriers, if at all?

Incentives—

- **The marketplace will provide effective incentives and enhanced opportunities for graduates of accounting programs focused on IFRS and U.S. GAAP.**

Barriers---

- **Lack of well-developed curriculums to deal with international accounting**

- **Lack of academic expertise and practical application expertise in international accounting.**
- **CPA exam modification would need to be coordinated with the timing on migration to IFRS/U.S. GAAP.**

20. What issues would be encountered by U.S. issuers and auditors in the application of IFRS in practice within the context of the U.S. financial reporting environment?

- **Lack of specific applied guidance in areas of complexity.**
- **Potential diversity in application as a result of principles based IFRS accounting standards and greater reliance on judgment in application.**
- **Maintenance of expertise and resources for dual reporting systems.**
- **Potential splintering of U.S. GAAP into a private company only focus, with the public company arena on an IFRS basis and left solely to the SEC to perform accounting standards oversight and monitoring.**

21. How do differences between IFRS and U.S. GAAP bear on whether U.S. issuers, including investment companies, should be given the choice of preparing financial statements in accordance with IFRS?

Dual reporting systems are likely going to be the norm for most companies, given the conflicting requirements of different bodies impacting those companies. These dual reporting systems are already in effect today for multinational corporations.

22. What do issuers believe the cost of converting from U.S. GAAP to IFRS would be? How would one conclude that the benefits of converting justify those costs?

Without significant study, total costs of implementation and benefits derived cannot be determined. In any event, we believe the overall costs would be very significant, and that long-term benefits would be obtained.

Separate measure and identification of these incremental costs by companies may be beneficial as a disclosure item.

We believe internal controls over financial reporting systems would need initial modification to respond to the dual reporting requirements.

23. Would audit firms be willing to provide audit services to U.S. issuers who prepare their financial statements in accordance with IFRS? How, if at all, would allowing U.S. issuers to prepare IFRS financial statements affect the current relative market shares of audit firms?

This move will be expensive for CPA firm and client company adoption, similar to the initial impacts from adoption of Sarbanes-Oxley requirements. Very large CPA firms will offer these audit services. It may lead to further CPA firm concentration/ consolidation of market share for public company audits, versus a private company basis view of the market. Firms may choose to specialize in one or the other arena, versus competing in both markets.

24. What factors, if any, might lead to concern about the quality of audits of IFRS financial statements of U.S. issuers?

There is no global auditing standard, with an existing PCAOB decision not to converge U.S. auditing standards with other existing global auditing standards. Achieving a fully converged, uniform global accounting standards objective should be accompanied by a similar move in U.S. auditing standards. Further consideration by the PCAOB and the SEC should be given to uniform global auditing standards as an objective as well.

25. Would any amendments or additions to auditing and other assurance standards be necessary if U.S. issuers were allowed to prepare IFRS financial statements?

Adopting IFRS, and its priniciples based accounting standards approach, means acceptance of greater judgment used in applying those standards. Both the SEC and the PCAOB should communicate this acceptance. In addition, the objective of a uniform global accounting standards world should be accompanied by a similar objective to achieve uniform global auditing standards.

26. How could global consistency in the application of IFRS be facilitated by auditors of U.S. issuers?

We would either see actions directed by the SEC to interpret application of IFRS standards in complex situations, or we would see evolved practice views develop by the major internationally based CPA firms (through such entities as the Center for Audit Quality, etc.).

27. Do you think that the information sharing infrastructure among securities regulators through both multilateral and bilateral platforms will improve securities regulators' ability to identify and address inconsistent and inaccurate applications of IFRS?

A concern is the lack of a process on how to resolve international disputes that may occur over IFRS and the IASB. Oversight, funding, governance and dispute resolution of the IASB and IFRS process should be evaluated to ensure that it adequately support needs and expectations in the U.S.

28. If the Commission were to consider rulemaking to allow U.S. issuers to prepare IFRS financial statements, are there operational issues relative to existing Commission requirements on which additional guidance would be necessary and appropriate? Would it be appropriate to have differing applicability

for U.S. issuers of the form and content provisions of Regulation S-X depending on whether they use IFRS in preparing their financial statements? Are there operational or other issues unique to investment companies? In preparing and auditing IFRS financial statements, should U.S. issuers and their auditors consider the existing guidance related to materiality and quantification of financial misstatements?

SEC guidance, in all its forms and aspects, would need to be expanded and modified to cover both U.S. GAAP as well as IFRS.

The SEC and PCAOB should communicate acceptance of the principles based accounting standards approach used by IFRS, and it's reliance on greater judgment in applying those standards. If not, we would expect that the SEC would take a far more active and detailed role in refining IFRS standards for U.S. application in various situations. This will occur in areas where the SEC believes too much variation in application exists, and/or where guidance or interpretative history is weak within the IFRS standards as published. In-depth evaluation is needed by the SEC on IFRS and U.S. GAAP to establish its view on IFRS and the inherent greater use of judgment in the application of principles based accounting standards. We note that the SEC has historically taken a very active and assertive role in the U.S. accounting standards setting environment where detailed guidance and rules based accounting standards have become the norm.

We don't believe concepts of materiality or quantification of financial statements would be impacted by adoption of IFRS as a financial reporting basis. Such guidance as Staff Accounting Bulletins 99 (on materiality) and 108 (on handling adjustments) should be unaffected by a permitted use or conversion to IFRS.

29. Should there be an accommodation for foreign issuers that are not foreign private issuers regardless of whether the Commission were to accept IFRS financial statements from U.S. issuers? Should any accommodation depend upon whether the foreign issuer is subject to the laws of another jurisdiction which requires the use of IFRS, or if the issuer had previously used IFRS financial statements in its filings with the Commission?

Yes, there should be an accommodation. The SEC's current proposal should add an additional provision that allows FPIs to reconcile from their home country accounting standards, inclusive of jurisdictional variants of IFRS, to IFRS as published by the IASB, in lieu of reconciling to U.S. GAAP.

30. Who do commenters think should make the decision as to whether a U.S. issuer should switch to reporting in IFRS: a company's management, its board of directors or its shareholders? What, if any, disclosure would be warranted to inform investors of the reasons for and the timing to implement such a decision? If management were to make the decision to switch to IFRS, do investors and market participants have any concerns with respect to management's reasons for that decision?

A move to IFRS should be based on recommendation by management, and approval by the Board of Directors. Management should be required to justify why this decision to change was made in order to best fairly present financial statements, if the Company elects IFRS as an option. This would alleviate any investor concerns about management motives in making this decision.

31. When would investors be ready to operate in a U.S. public capital market environment that allows the use of either IFRS or U.S. GAAP by U.S. issuers? When would auditors be ready? How about those with other supporting roles in the U.S. public capital market (e.g., underwriters, actuaries, valuation specialists,

and so forth)? Is this conclusion affected by the amount of exposure to IFRS as it is being applied in practice by non-U.S. issuers?

We believe the period of five to seven years on a phased in transitional basis (similar to the rollout approach used for Sarbanes-Oxley implementation) would be beneficial. While early adoption of IFRS might be permitted on a voluntary basis after a couple of years, we would suggest the ultimate goal should be complete conversion of all publicly held companies to a uniform set of global accounting standards. With an adequate timetable, preparation, and supporting actions by the various bodies (FASB, IASB, SEC, PCAOB, etc.), a required conversion is feasible with Year Eight (at the end of the transition period).

32. Should the Commission establish the timing for when particular U.S. issuers could have the option to switch from preparing U.S. GAAP to IFRS financial statements? Should market forces dictate when a U.S. issuer would make the choice to switch from U.S. GAAP to IFRS financial statement reporting? If the former, what would be the best basis for the Commission's determination about timing?

The Securities & Exchange Commission (SEC), on the basis of company/auditor/ investor readiness, should establish a timetable and approach to an IFRS conversion. We believe a five to seven year transition period, with mandatory conversion in year eight, would support this process. Within this time frame, permitting (after two years or so) early adoption to IFRS by electing companies would provide experience and insight for other companies ahead of a broad mandatory conversion requirement.

33. Should the opportunity, if any, to switch to IFRS reporting be available to U.S. issuers only for a particular period of time? If so, why and for what period? At the end of that period of time, could commenters foresee a scenario under

which it would be appropriate for the Commission to call for all remaining U.S. issuers to move their financial reporting to IFRS?

An approach should use a five to seven year timetable to achieve IFRS convergence (and a uniform set of accounting standards), with mandatory conversion in year eight. As part of this transition period, the SEC should address issues relating to the use of judgment in applying accounting standards, and areas in U.S. GAAP versus IFRS where concerns may exist. In addition, similar reviews should be done by the PCAOB on migrating to a global auditing standard.

Within the transition timetable (after two years), early adoption on IFRS may be a useful option to offer. This action would meet the needs of large multinational companies, and provide insight to other companies on the process ahead of a point in time where mandatory conversion to IFRS would be required.

We also note that with any mandatory change, there may be counter-arguments by smaller public companies on the relative costs of conversion and the perception of accounting standards "overload". For these and other publicly held companies, we believe the long term benefits of uniform accounting and auditing standards will offset the costs of initial conversion and potential dual reporting systems that may be required (by taxing authorities, regulatory authorities, banks, etc.).

34. What difficulties, if any, do U.S. issuers anticipate in applying IFRS 1's requirements on first-time adoption of IFRS, including the requirements for restatement of and reconciliation from previous U.S. years' U.S. GAAP financial statements?

Undertaking a conversion to IFRS would require extensive knowledge of IFRS and U.S. GAAP, and the requirements for restatement and

reconciliation would not be a major difficulty. In fact, companies would necessarily need to be able to understand and bridge those reconciling differences both with their internal and external users of financial reporting.

35. Would it be appropriate for U.S. issuers that move to IFRS to be allowed to switch back to U.S. GAAP? If so, under what conditions?

Once a switch to IFRS is elected, there should be no ability to switch back into U.S. GAAP. With the five to seven year transition time frame, and a suggested mandatory conversion to a globally accepted uniform accounting standards by year eight, we believe there is no need to consider a switch back option.

We appreciate the opportunity to comment on the Concept Release. If you have any questions about the above comments or deliberations of the task force, please contact me at the following telephone number or e-mail address.

Sincerely,

Gary L. Sandefur, CPA, Chairman
SEC/IFRS Task Force
The Ohio Society of CPAs
gsandefur@rgbarry.com
614.729.7060