Federation of European Accountants
Fédération des Experts comptables Européens

21 April 2009

Ms Florence E. Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street
NE Washington DC 20549-1090
USA

E-mail: rule-comments@sec.gov

Ref.: FRP/HvD/SS/SR

Dear Ms Harmon,

Re: File number S7-27-08 Roadmap for the Potential Use of Financial Statements Prepared in Accordance with IFRS by US Issuers

(1) FEE (the Federation of European Accountants) welcomes the opportunity to respond to the SEC Proposed Rule on the Roadmap for the Potential Use of Financial Statements Prepared in Accordance with IFRS by US Issuers. FEE strongly supports the intention to require US issuers to prepare financial statements in accordance with IFRS, including the provision to allow US issuers in IFRS reporting industries to early adopt IFRS. Both US investors as well as investors worldwide will benefit from the enhanced ability to compare financial information of US issuers with that of foreign issuers. It is already of considerable value that European foreign private issuers who are quoted on the New York Stock Exchange can use IFRS without submitting a reconciliation statement and we appreciate that the SEC is now considering the next step towards the use of IFRS by US issuers. We have provided general comments to the proposed Rule, but have deemed it more appropriate not to respond to the detailed questions.

(2) As the representative organisation for the accountancy profession in Europe, FEE groups together 43 professional accountancy bodies in 32 countries. Many members of these bodies are involved in reviewing or auditing US GAAP financial statements – either relating to companies listed on US stock exchanges, including those subject to registration with the SEC, or for European subsidiaries of US companies. FEE has supported the principles of seeking convergence as set out in the 'Norwalk Agreement' between the IASB and the FASB, which are aimed towards securing convergence between IFRS and US GAAP and which have also been confirmed by the various roadmaps agreed within the Transatlantic Dialogue.

Global Principle-based standards (Question 1)

(3) FEE is strongly committed to high quality, global, principle-based and transparent financial reporting standards and supports the objective of creating a single set of global standards. Only global standards will meet the wider objectives of global financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets and of facilitating global investments, thereby reducing the cost of capital. Global financial markets require financial information prepared in accordance with global standards for reasons of competitiveness and comparability and for capital raising purposes.

(4) A principle-based approach to financial reporting means that accounting standards should be based on clear principles, designed to serve the public interest, underpinned by a limited volume of application guidance that shows how those principles should be applied in common situations. This approach promotes consistency and transparency and helps companies, their advisers and auditors to respond appropriately, using professional judgement, to complex transactions and new developments in business practice. Such a framework for accounting standards will allow participants in the financial reporting chain to develop consistent high quality, transparent reporting without the need for detailed rules which seek to address all the eventualities that may arise in practice. A principle-based approach allows for developing the appropriate accounting solution that addresses the substance of the often complex transactions rather than focusing on basic compliance with rules. While this will inevitably leave room for some variations in accounting practices and some differences in interpretations, the resultant proper use of judgement will, in our view, result in better financial reporting.

Transparency and Clarity (Questions 2 and 3)

(5) US issuers, as well as users, need transparency and clarity regarding the possible future use of IFRS. We believe that the milestones approach with a decision in 2011 as to whether or not to proceed with rules that require US issuers to use IFRS beginning in 2014 may not stimulate many US issuers to early adopt IFRS prior to 2011. If issuers are uncertain whether they can continue to use IFRS, this will restrict their willingness to move to IFRS early even if the SEC creates the possibility for doing so. Based on the experience gained in Europe, we saw that issuers need reasonable certainty before they invest in a new reporting system.

(6) The SEC's final decision in 2011 will depend on a number of factors described in the milestones, such as progress made by the FASB and IASB in their joint work under the 2006 Memorandum of Understanding; consideration of the IASB's due process and fulfilment of its targets; and accountability and funding of the IASCF. In addition, there are a number of other important factors, such as the development of IFRS tags for reporting under XBRL, the then status of education and readiness of investors, preparers, auditors and others. In our view, the criteria by which the SEC plans to evaluate these factors and the progress should be more clearly formulated. Many of these issues are discussed in the questions posed in the Roadmap. However, if dealing with these issues does not lead to a firm and earlier commitment to allow IFRS, the SEC risks creating a barrier to the early use of IFRS. It seems unlikely that Issuers will decide to use IFRS for a limited period where there is a risk of having to revert back to US GAAP after a few years. In addition it is a challenge for investors to have to cope with two different sets of GAAP over an extended period. This will result in a lack of comparability between financial statements within and outside the US. Therefore we call on the SEC to advance its decision in order to provide a clear position to both issuers and users.

(7) We appreciate that when an issuer moves from one GAAP to another set of standards, some form of reconciliation must be provided. In this respect IFRS 1 on first-time adoption of IFRS, already provides requirements. The more extensive proposals, laid down in proposal B, in our view risk discouraging US issuers to move towards IFRS should they have to cope with these demanding additional disclosures on a yearly or quarterly basis. In addition, the proposed extensive disclosures put an additional cost burden on preparers, with a risk that total costs are not matching the benefits. We therefore suggest that the SEC considers restricting the transition disclosures to the international requirements as laid down in IFRS 1. Both issuers and users need one set of financial statements. Two sets of numbers will risk not only confusing the users but also the management of the company itself, thereby creating a risk of errors in reporting.

Approach and cost of transition (Questions 4, 10 and 11)

(8) In Europe's transition to IFRS, most EU Member States opted at the time for a non-staged approach. Under the current SEC proposal, the lead time most US issuers would have is almost six years. In our experience that should be more than sufficient for issuers to make the necessary preparations for the transition to IFRS. As such, a staged approach should in our view not be needed.

An important factor that determines the complexity of a conversion to IFRS is the national GAAP from which an issuer starts its conversion. In Europe, in several Member States (including, for example, Germany), national GAAP significantly differed from IFRS. It is quite possible that the transition for US issuers may be easier because of the existing level of convergence between IFRS and US GAAP. Some EU Member States have had experience with a staged approach but, in hindsight, it may be questioned whether that approach brought any advantages. From a harmonisation and comparability point of view it seems preferable to opt for a non-staged approach.

(9) In Europe the transition to IFRS went relatively smoothly. The European experience with the cost of implementing IFRS can be illustrated by a survey and study performed by the Institute of Chartered Accountants in England and Wales (ICAEW) on the EU Implementation of IFRS and the Fair Value Directive, which was published in October 2007, based on the 2006 financial statements. The survey, which was commissioned by the European Commission, showed that the typical cost of preparing the first IFRS consolidated financial statement was between 0,05 and 0,31% of turnover.

Convergence (Questions 5, 9, 10, 11, 13 and 14)

(10) FEE supports the principle of seeking convergence, providing that this leads to the highest quality accounting solutions. Convergence may start with a careful analysis and selection of the best and most recent thinking under IFRS, US or any other national GAAPs where relevant. The development of the best accounting standards should however not be limited to the selection of thinking under existing standards. Where necessary and relevant, the process should include new solutions and new thinking and the willingness of all involved to enter into new domains resulting in improved high quality accounting standards. We suggest therefore that convergence, in order to be successful needs to go beyond existing accounting standards. New high quality standards on major issues such as financial instruments or pensions, developed jointly by the best resources from national/ regional standard setters and the IASB, that are generally acceptable to all stakeholders will in themselves ensure a level playing field for all countries that have adopted IFRS. Convergence of IFRS towards an existing particular national standard is then no longer needed to achieve that aim.

(11) The publication of the Roadmap will stimulate the process of convergence, while, at the same time, focusing on the need for a realistic convergence time table. The possibility that US issuers may be required to use IFRS may stimulate other countries to undertake similar steps or to intensify their convergence efforts and increase participation in international standard setting process. We commend the US for this positive step which will add impetus to the aim of global standards for financial reporting at a time when this is more important than ever. However, we also wish to underline that, in our view, the process of convergence should not be limited to convergence between US GAAP and IFRS but should include all important national GAAPs so that convergence with IFRS or where appropriate, adoption of IFRS, is promoted and encouraged in all countries where national GAAP has not yet been replaced by IFRS.

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

(12) We believe that convergence should not be the only factor driving the IASB work programme and the related priorities. A proper balance needs to be struck with the speed and nature of the changes, in particular where current IAS or IFRS are not perceived as causing problems that need to be resolved. We have therefore called on the IASCF in a letter of 16 December 2008 to instigate, together with the IASB, an annual public consultation process on the IASB work plan. A specific procedure needs to be in place - with appropriate oversight - for adding issues to, but also deleting issues from, the IASB work programme. Completion of such a public consultation would also assist in getting the IASB priorities right and may assist in solving the problem of current heavy agenda (we have noted the serious delay to some of the most important projects). As we have pointed out to the IASCF Trustees, we strongly believe that before new issues are added to the IASB agenda, a needs analysis, including an initial costs/benefits analysis, needs to be carried out to demonstrate that there is a genuine need for a new standard in areas not already covered by an existing standard or a revised standard when an existing standard is considered to be deficient. We believe that it may now be the right point in time for the IASB to launch a public consultation on its work plan of the IASB, given the clear need to reconsider priorities, taking into account the implications of the financial crisis.

(13) We are of the opinion that the criteria that need to be adopted in assessing the IASB's and the FASB's work under the joint work plan will have to be based on a thorough assessment as to whether the IASB has a sufficiently robust and independent financial reporting standard setting process, including due process. These elements are continuously evaluated by the IASCF and more intensely during the Constitution Review every five years. The second part of this Review is currently taking place and will shed light on the robustness of the process and the areas that will need improvement. As far as we are aware, all significant issues have been or are currently included in the IASB work plan including the Conceptual Framework, Revenue Recognition and Recognition and Accounting for insurance contracts. Moreover standard setting is a continuous process and issues can be added to or deleted from the work plan when and where needed. Principles based standards can also be applied to issues and situations that are not directly covered by a specific standard, providing the principles in the standard are followed.

Oversight

(14) FEE underlines the importance of robust and independent oversight and accountability arrangements to ensure broad acceptance of IFRS. The accountability of the IASB and the IASCF is of key importance, focusing on appropriate democratic oversight and improved transparency. We believe that the creation of a link between the Trustees and the Monitoring Board of Public Authorities is an appropriate measure to establish such a public interest oversight and to enhance the credibility of both the IASCF and the IASB. The recently established Monitoring Board should be instrumental in meeting the need for an ongoing dialogue between the Trustees and the public authorities with an interest in accounting standard setting.

Global Interpretations

(15) FEE strongly believes that global standards should be interpreted at the global level, i.e. by IFRIC rather than by national mechanisms. We are therefore of the opinion that regulators, including the SEC, should refer accounting issues that they identify as being in need of interpretation immediately to IASB or IFRIC, unless a case relates to a specific national issue. However, interpretations of global standards will inevitably leave room for some variations in accounting practices and some differences in interpretations. The application of principles based accounting standards allow for the use of judgement and, while consistent application of accounting standards is a necessary and desirable objective, this should not be confused with an overly rigid application of rules to the detriment of presenting a true and fair view in the interests of the investors and the public.

Audit (Question 8)

(16) The roadmap does not discuss the applicable auditing standards. This means that the auditor would still be required to conduct the audit in accordance with the standards of the PCAOB and any SEC guidance relating to auditing (US GAAS). We urge the SEC to consider replacing this requirement with the option to use International Standards on Auditing (ISAs) as issued by the IAASB. ISAs are developed in an environment of robust due process and appropriate oversight and governance. If ISAs could be considered acceptable, international standards will be allowed for both reporting purposes and auditing purposes on a global basis.

(17) In Europe the training of auditors has been adapted and is based on international accounting and auditing standards: IFRS and ISAs. This has been a gradual process over several years and today IFRS and ISA are obligatory components of the training curriculum to become an accountant as well as being required by the Statutory Audit Directive. In Europe, accordingly, we are not aware of any major problems regarding the training in IFRS.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely,

Hans van Damme
President