Via email: rule-comments@sec.gov

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: ***File No.:*** S7-27-08 **Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers**

Dear Ms Murphy and Professional Colleagues at the Securities and Exchange Commission:

Thank you for extending the Comment Period related to the proposed road map to consider adoption of International Financial Reporting Standards, "IFRS". Please excuse but accept this submission after the official comment period. I appreciate the improved, more robust and healthy due process under the current SEC leadership and hope it continues.

Although I do not speak for my fellow committee members, I serve on the Committee For Improved Corporate Reporting at the New York Society of Security Analysts and have served on that committee for a number of years. I also have worked advising and with experts providing advice to financial institutions of various sorts. I neither consider myself an accounting expert, nor an expert on financial statements, however again have some concerns about the quality and future of all financial reporting in the US as well as in other jurisdictions around the world. My comments however I confine to what pertains directly to reporting about the economic-financial performance of US commerce and firms based in the US for headquarter purposes.

Comment Regarding the "Roadmap"

A number of experts have provided their analysis, whether supporting or opposing IFRS according to the SEC "road map" for implementation of international reporting on the US commercial framework of all companies in our society. IFRS is still young and relatively untested while US GAAP is mature and more robust. Some suggest aggressive implementation which I oppose, and until 2011 the SEC will deliberate whether or not to adopt or accept reconciliation with US Generally Accepted Accounting Principles aka "GAAP", or adopt what convergence produces.

As this is the comment period closing related to the "road map", among those entities that have submitted comments opposing the road map, which I suggest not only delaying the use of IFRS and when used, it would be only for reconciliation purposes, however, I also am taking the liberty to submit for the record opposing IFRS implementation without reconciliation with US GAAP. Also for the record, I generally agree with most of the technical comments and concerns the New York State Society of Certified Public Accountants has provided for this due process. Cost and time considerations outweigh any urgency especially to eliminate US GAAP or to stop respecting convergence for the optimal set of high financial reporting standards, although it has been observed by experts even as well placed as the PCAOB, that that would be US GAAP.

Some think it is a foregone conclusion that the SEC is too far down the road to convergence to turn back from the US accepting IFRS as its reporting model. The schedule for the final decision however the SEC has scheduled to make it in 2011. In that same vein, disingenuously or otherwise even former chairman Chris Cox said mandatory adoption would happen if it is in the public interest and consistent with the protection of the investors. It's presumptuous to think that because 100 sovereigns virtually all of which are commercially less developed than western sovereigns and the US that the US likewise should adopt IFRS. A reporting model proposed as the perfect shoe to fit all wearers actually is sized even in other sovereigns adopting IFRS.

The decision will hinge on progress made in the project of converging US GAAP with IFRS, the level of IFRS education in the US, the IASB's stability, which current SEC Mary Shapiro indirectly mentioned her concern with the IASB's independence from influences that would taint the standards, and consistent worldwide application although apparently many sovereign adopters have made country-specific changes to IASB's version of the rules (CFO.com reported in November 2008).

I have other macro and micro concerns, however and will observe those in this letter.

Other Matters Aside from the “Road Map”
Only if IFRS in the US were purely optional, accompanied with US GAAP reconciliation to both IFRS endorsed by the IASB as well as IFRS endorsed for use in the EU, would I give it consideration under the optional, reconciled adoption. Keep in mind that users are looking a reporting of the economic status of the US commercial and legal framework and transactions produced as a result of these. In any society, especially developed, sophisticated, complex jurisdictions in highly developed sovereigns, all contracts and agreements are based on the GAAP of those sovereigns. Neither the Canadians nor the Australians gave IFRS a pass without it reconciled to their own reporting and in the case of Australia, keeping only that IFRS non-conflicted with Australian GAAP (Internal Auditor, October 2008, p34).

Moreover, I cannot see adopting IFRS to further confuse reporting after the economic problems we've been experiencing. The US is the world's largest homogeneous commercial environment under a federal administration aside from state jurisdictions, however, in the US corporate law is administered at the state level. Aside from this risk for abuse where IFRS encourages further federalization of corporate law, already enfranchised enough with eroded checks/balances at our federal level from conflicts of interest between the legislative and executive branches, without confusion or distraction the users, preparers and those assuring financial reporting need to honestly measure the current commercial status and represent that in the financial reporting.

Next, Mr Jeffrey Mahoney of the Council of Institutional Investors said IFRS has to respond with proven ability to resolve the following key issues (August 5, 2008's CFO.com). Will IFRS produce the same quality of reporting as US GAAP? Would application and enforcement under the IFRS regime enjoy the same rigor applied by US GAAP? Does IASB have an adequate and stable source of funding that is not dependent on private donors as well as a full time, independent technically capable staff? Does it have a robust due process, paying attention to the views of all constituencies of financial statement users. Not like in the US, FASB isn't heckled by management representatives during due process looking for where and how to get the reporting model to beautify operating performance that management wants to press for its self interests, however does IASB have a structure, process, and adequate governmental support to keep its standards work from being overridden by political processes?

The March 2009 CPA Journal echoes many questions I have raised and blogged. It blithely suggests that "appropriately trained controllers and their advisors can usually undertake the exercise of determining all differences which a reporter will encounter. With that, deeper analysis will address what are the effects of the new reporting model on the many other legal relationships in which the enterprise is involved? What will be the impact on debt arrangements and other financing arrangements that included financial statement measures and covenants based on them? What about profit sharing and other comp plans and their relationship to financial measures?

Financial statement measures permeate many company relationships. A changeover to IFRS significantly may alter these relationships. There will be federal and state tax implications arising if adopting IFRS. An enterprise's investments in other entities that are either consolidated or accounted for by the equity method, using IFRS will introduce further differences that may be unlike the differences applicable to the investor company. The systems and IT also will have to adopt an entirely new reporting model. It also does not connect to the current IT systems' SOX 404 compliance and other compliance on which financial institutions regulatory reporting is based. Most have only considered GAAP transition, however RAP and GAAP especially for consolidated bank holding company regulatory filings with the FED, regulatory accounting is based on and reflects US GAAP. At the present time, one could gather the financial regulators have sufficient occupation within their own back yard, yet alone having to coordinate with IFRS compliance and face all the distraction and implementation risk of a new financial reporting regime impact to their own evaluation of safety and soundness.

Political Pressures Connected to IFRS that Erode its Quality for Use to Measure US Commerce

Aside from Policy makers considering down-sizing FASB from 7 to 5 members during a time of economic and accounting turmoil, while not calling it moral hazard, politically motivated interests have driven the efforts in the US to adopt IFRS (CFO.com, September 8, 2008. "Regulator Rips Into Global Accounting Plan"). Charles Niemeier confirmed what I'd thought and have suggested, that some political agenda is driving US adoption of IFRS. Mr. Niemeier said that "No country is as effective regarding the uniqueness of the US in its regulation. ... We have the lowest cost of capital in the world. Do we really want to give that up?" He has been a vocal critic of the accelerated movement toward adopting IFRS. He also challenged former Treasury Secretary Paulsen's accusation that stringent American regulations have hurt the country ability to compete in global capital markets which also was repeated over the years by McKinsey in a 2007 report to Mayor Bloomberg and Senator Schumer they commissioned.

The Bush Administration however has altered the process of convergence and for its own interests which is suggested that GAAP is shed and capitulation has taken place rather than true convergence of US GAAP with international reporting to produce high quality financial reporting standards. The SEC's John Nestor replied that US investors are investing in more foreign companies than ever before; his comment went to parallel Mr. Niemeier's comments. Mr. Nestor also added that more US investors investing in foreign companies, and "suggests the need for an international language of disclosure and transparency to protect investors and facilitate their comparisons of corporate financials". Although what Mr. Nestor said is true, at this point without reconciliation, many users of financial statements lack what Mr. Nestor said he'd want them to have and achieve.

An international language of disclosure and transparency to protect investors and facilitate their comparisons of corporate financials will not be able to happen without the use of **reconciliation.**

Meanwhile, Niemeier said that because IFRS is younger, for that reason it has few rules. In part I agree with him, however the European influence ha s more to do with the more loose interpretation permitted, than it's relative youth as reporting regime. Moreover, many issuers are seeking a level of consistency and predictability which would be more difficult to achieve under IFRS. Furthermore, Niemeier observed that a move to IFRS is moving back to more discretion that existed before *U. S. vrs. Simon* (1969) that presenting financial information in conformity with GAAP, was insufficient protection against charges violating antifraud provisions of the US securities laws. He also said that more discretion would lead to less comparability rather than more, as is claimed as a reason to adopt IFRS. The world achieves comparability when it moves to US GAAP.

Potentially disrupting protections in place for investors, IFRS would not be linked in the same way to our regulatory framework. He mentioned IFRS would be a way to reduce regulatory protections under Sarbanes Oxley, as IFRS in effect is a system more difficult to enforce. Niemeier confirmed my observation about the percent of people in the US invested in the stock market (50%) versus Germany (10%). He stated the US has a moral obligation to maintain a system with less risk. IFRS fails to provide sufficient comfort for investors and stake holders as well as users of financial statements.

In November 2007 Mr. Niemeier suggested that adopting while shedding reconciliation fouls leverage for top quality converged GAAP (CFO.com, Nov 14, 2007, The Dark Side of Global Accounting Standards"). He also suggests leverage must exist to hold multinational corporates accountable to complying with any standards and the regulators loose leverage without reconciliation or quality convergence efforts. Perhaps this was an intention when the SEC eliminated both reconciliation and pressed for adoption with a decision it would make in 2011. Even Bob Herz, FASB's current Chairman suggests convergence should be in place before target dates are set.

The current SEC Chairman, Mary Shapiro prudently lengthened the comment period on the 'road map', instead to focus on addressing the current credit bubble correction and promote convergence efforts well under way, among other endeavors.

Additionally, CFOs themselves have to factor in the financial as well as enterprise cost for 'adoption' which again I suggest reconciling it to US GAAP rather than adopting IFRS - as we do not have the same sort of commercial and legal environment as the Europeans; nor are we an underdeveloped economy and jurisdiction like the other 90 countries that adopted IFRS.

Early adoption is said to potentially cost issuers choosing to do so, $32MM on average largely related to other practical constraints, such as the staffing, systems, data gathering, and items connected to US GAAP, which is as I'd also mentioned, and confirmed in "CFOs on IFRS: Forget about It" (CFO.com, April 17, 2009). CFOs also have to consider differences such as revenue recognition, leases, asset impairments, classification and measurement of financial instruments, hedging activity and stock based and exec comp, inventory accounting and is also suggested accounting for pensions are different and would alter flows through the income statement, thus affecting tax expense and balance sheet items such as deferred taxes. Additional considerations also include local interest deductibility, hybrid instruments, foreign currency gains and losses, amortization and other deductions, transfer pricing, and repatriation strategies. Further to be considered are debt covenants, investor relations materials and other contracts and contingencies of all sorts where the company, its officers and its board are obligated.

Consider Differences between Europe and the US

Meanwhile, individual sovereigns in the EU still enjoy their many distinctions, although this adds to political pressures for the US to adopt international reporting. With all their and our commercial turmoil, if we adopt European reporting, that financial reporting model will not properly measure the economics of the cost and price of capital formed by and under our complex commercial and legal system. Further, under US GAAP and because of friction on reporters enjoys, users including stakeholders and analysts enjoy better disclosure and transparency than found in Europe. Consider in Europe, on boards of their largest public companies, one finds representation of their other very large public companies' representatives. Their Public is abused with more obscure financial reporting.

Moreover, it is presumed that Europe has the same middle class shareholder ship of their public companies as is found in the States. Quite the contrary as one sees in Mr. Niemeier’s observation. And although they are gaining shareholder activism attempting to spur management for operating improvements, unlike our system, their system generally has more respect for their employees with their governments (pensions) also having board representation. This employee care eroded however, partly after creation of the EU with western European employers siting production in lower wage, lower regulatory regions in eastern and southern Europe. That slowed growth in developed Western Europe, meanwhile again producing little middle class common shareholder ship in their larger public companies.

Further, their governments pay the pensions and health care, 2 costs their corporates don't face directly the way US corporates experience. All in all, their system is quite different given their historical social development and now institutional structures, that some think we should mirror, however that isn't what is the purpose of this comment, although I suggest their slower commercial environments and associated measure of the economics of that promotes their use of drive-the-truck-through-the-interpretation and the management flexibility with interpretation under their accounting principles helps give them higher earnings. In the US, FASB endures aggressive management self interest for cozy GAAP to produce higher earnings and is something to spur concern about the quality of operating performance of management rather than accept the earnings numbers that management can squeeze from the reporting model. IFRS fails to improve aggressive management interpretation and reporting.

Described as 'a moving target' it is said that IFRS - as I characterize it as the European reporting model would inflate earnings, misrepresenting financial reporting of moribund US domestic commerce. Experts also have observed that unlike US GAAP, IFRS disrupts comparability between peers while the reporting model also fails to respect sector uniqueness. US GAAP quite robustly respects sector differences within its framework.

Not only is IFRS fixed in Fair Value- a European practice that typically had given and has given the balance sheet and managements' status of wealth more than the income statement, which typically is burdened with a higher cost operating environment and taxes than in the US, but IFRS in Europe allows management to employ the concept of "fair and true" to override (violate an IFRS standard; effectively US GAAP has no corresponding provision).

Furthermore, without Audit developed to match IFRS reporting, concurrent with major complaints and friction attempting to shed SOX section 404 compliance under US GAAP, internal controls’ concerns in the specter of a new accounting framework being proposed, stakeholders loose tools to scrutinize management and associated operating performance and credible financial measures of the economics of that. Image adopting the new reporting model without the ability for the audits to support whether the financial reporting was truthfully representing the economic/commercial performance of a financial player. The European reporting and Principles based inadequately measures what US GAAP already does.

IFRS is said to tolerate alternative accounting treatments, I suggest is a European custom and probably so that its European adopters stay in the camp. It lets management have too much leeway. Under IFRS lightly constrained management would have the side of a barn to drive through while preparing their public financial reporting. Consider too if IFRS is so weak that management decides that a more self-interested treatment not promulgated in a specific statement is the way management wants to measure and report a particular matter. The back and forth with the accountants gives management too much ad hoc power to control what is reported. In the US, the more robust due process eliminates or attempts to eliminate the uncertainty of what a standard means and how it is implemented, while in Europe there had been little functional due process. Although there typically is guidance in the US, there also is a sufficient period of time before adoption where CFOs and control staff can adjust their systems to new statements. US GAAP may not be perfect but generally expects management to endure any pain on the front end rather than decide ad hoc to alter reporting deviant from what IFRS would have produced even as broad as an interpretation management could gather from the statement.

Potential for Moral Hazard and the Importance to Avoid Moral Hazard
Within all of this related to financial reporting, other interests have been proposed in which I see some sort of moral hazard.

How many times have we observed moral hazard gestate, grow, then seize its yield for the shrewd who planned and watched its unfolding? Used as fodder and operating in flawed judgment - seemingly competent, well educated, and well meaning people in positions of seeming authority but with the power to influence decisions such as this in concert or sequentially have made poor decisions to produce economic/financial, commercial, or governmental train wrecks. Given the current commercial turmoil, IFRS "will impact a company's systems, and processes, internal controls, business practices, and human resource management... a move to IFRS might require a wider company rethink that encompasses internal controls, IT systems, cash management, income taxes, contractual arrangements and compensation plans" all of which as Internal Auditor observed, can make a transition to IFRS a "tortuous project". (October 2008, pg 35, "GETTING UP TO SPEED WITH IFRS" Internal Auditor quoted KPMG's John McGraw, a Chicago based partner in the internal audit, regulatory, and compliance services practice). These all confirm what I'd gathered already while considering the way our commerce and legal system look to US GAAP, and GAAP measures what those spawn and parent.

And no question, all enterprises need to engage and coordinate their boards of directors or Trustees and the Boards' Audit Committee proactively. Although the article I reference here suggests that the board should establish its IFRS strategy, sufficient differences in our commercial framework to reject IFRS adoption although reconciliation acceptance and thus developing a contingency reconciliation plan is probably advisable. Avoiding reconciliation inefficiency is a board responsibility. As many of these will be distracted with the economic correction, I suggest it is a moral hazard for the SEC to require 'adoption' without reconciliation while reporters are attempting to rally rather than use reconciliation of IFRS with US GAAP. Required adoption at any point again obscures problems and differences between the sovereigns and their jurisdictions and commerce that produced IFRS and ours. Why would our regulators force that? What would be the hidden agenda for moral hazard that will obscure where there will be problems and failures in reporting?

Even under principles based, when standing back 'six feet' and ask if this makes sense, principles base still obscures where reconciliation would give analysts understanding and better comparability. Interest to reduce complexity in the reporting model/framework looses any credibility when one considers that this will not happen without reconciliation with US GAAP. Lack of reconciliation with the former reporting model obscures what the former reporting model would have produced as that was a better match to our legal and commercial system.

Consider also some companies may soon have to disclose future costs of lawsuits. Lawyers have had a difficult time estimating this, and under a rule proposed by FASB, issuers will have to require companies to add more robust disclosure about legal liabilities they may or may not incur. Fair valuing these, experts have had difficulty because key variables exist: laws that apply in a case, the strategy of the lawyers, the judges in the jurisdiction, to name a few. Experts in our current US GAAP have difficulty estimated these sorts of contingencies; IFRS and its Fair Value framework would have to step where FASB stopped when FASB issued its proposal on these matters without respect for Fair Value (CFO, September 2008, "Fair Value Revolution" p. 53).

Additionally, although FAS 133 is said to unfairly treat hedger of the risk versus the instruments and who holds these, counterparties in a hedge each have different economics tied to that hedge instrument and position. Even if IFRS would use the same method of hedge accounting and each company would be required to use consistent accounting on both sides of the hedge, only the accountants would be happy. Management on each side of the risk would want that risk measured to reflect what they think it costs them in the event of realization. Until that point, probabilities drive the valuation and that's not the same for each counter-party.

Further, one also could argue that the credit bubble correction surfaced the misapplication of FAS 157 and 159 regarding assuming fair markets always exist, and when management and assurance have difficulty pricing downside risk when no one will buy it. At the very least, FASB has issued guidance on the Statements' less robust and less experienced definitions of functional markets, ie, when markets are operating fairly.

Again related to moral hazard, FASB's aggressive support of Fair Value has prospered the need for the accounting profession to assist management to fair value - new, any, all - instruments to be fair valued. Supporting my observation in 2004 after reading "Fair Value Revolution", the Advisory Committee on Improvements in Financial Reporting "CIFR", in suggesting ways to minimize Accounting's complexity it reviewed issues surrounding professional judgment. Under an accounting regime based more on Fair Value, issuers face more scrutiny by their auditors and regulators. In turn accounting firms face similar scrutiny while engaging in the assurance process. It is said however that restatements have occurred in part from companies' fear of auditors and regulators' second guessing CFO.com (October 26, 2007). All of this would remain a fate under IFRS; IFRS solves none of this.

Notwithstanding, investors and other stakeholders face additional risks at the present time with Fair Value, actually on which IFRS is based. Consider revaluing the liability side of the balance sheet when it produces an item said to be divorced from economic reality, a nonmonetizable, non cash gain that passes through the income statement. Coincidentally with that, the credit has to be valued for the potential risk that the debtor defaults. Meanwhile an issuer would incur some tax consequence of the devalued debt, while as James Tisch protested that such cheesy items passed through the income statement, 'is going to destroy the notion of the income statement and make it unusable for investors who just want to see how a company did for a quarter". The debtor still has to repay the debt, however, and marking to market the debt doesn't change the contractual obligation, nor the associated cash flows owed to the creditor despite risk of default (9July 2008. CFO.com “How Fair Value Rewards Deadbeats").

Most have relied on the rating agencies which react while a credit deteriorates. Lenders and underwriters have better feel for debt they trade or hold in whole or in syndicated pieces. Players here such as financial institutions, have significant movement on both sides of the balance sheet, and already aggressively use asset/liability management. Fair valuing much of the balance sheet subjects financial institutions to a great deal of non-operating risk than is necessary or it actually has incurred on its own.

Although if management produces garbage instruments to mask worthless risks it has incurred, it should suffer disciplines meted to it by the market and oversight-regulatory bodies. Like a cancer tumor, not all 'growth' and innovation are good which some have screamed is being stifled by the regulatory and financial reporting process. Investors further ruminating that the mark to unfair markets still gives them a more true picture of an enterprise ah, well arguably could consider that management produced all these worthless instruments for which there is little tradability in distressed times, while quality assets and strong credits suffer little devaluation even in the most difficult times, as long as they were valued fairly should appreciate that at the very least in the footnotes, they could find this fair value disclosure.

Granted some managements provided better transparency than others however, and speaking to limiting mark to market to Marketable Securities and Available for Sale Securities, analysts still have found very useful balance sheet reporting and foot note disclosure on the fair value of these and many other accounts and financial statement items. There should be no tyranny of investors' interests over management equally offsetting any lack of tyranny of management over the public.

Reconciliation promotes transparency and improves quality of disclosure. The last reconciliations for many IFRS companies were filed with the SEC for 2006 (March 2009 CPA Journal). Three years will be passing, loosing the tracking and reporting of differences visible when IFRS reporters had to reconcile with US GAAP. For comparability and affirming convergence efforts, including IFRS RECONCILIATION with US GAAP would lend support to the SEC's interest for high quality financial reporting that responds to Users' needs.

Even under the convergence project between IASB and FASB for IFRS and US GAAP, has had robust due process and minimized the risk of the measure of the economics of US commerce at the individual financial reporter level will be less than effectively represented than what at least US GAAP would have produced. In effect, as the CPA Journal observed, without reconciliation and without comparability, experts say the US currently is witnessing 2 standards.

My concern is that agency wants to self deal and now if it can, legally with a reporting model that would take substantial focus and means to adopt. We're not looking at a new Statement. We're looking at a new reporting model that is unfamiliar and more management friendly than US GAAP, which already has endured being the convenient whipping boy when management self dealings while perhaps not fraud, may be untoward and hidden in aggressive interpretation of GAAP to suit management self interests. Moreover, the CPA Journal mentions that although IASB and FASB are reconsidering their respective conceptual frameworks, if there is US implementation for its big domestic reporters, it may "weaken further convergence efforts since all later changes to IFRS will become troublesome in the same way that accounting changes generally are, that is, in requiring careful handling of perceived consistency and restatement issues and related investor communications challenges.

Although some think it suitable that IFRS has been developed with cross-industry orientation, US GAAP has developed many industry specific rules which permit the same kind of transactions to be treated differently depending on the industry. I suggest the scale of US commerce and the number of individual reporters along side of the various state laws which govern the legal accountability for reporting, as well as the nature of the commercial sector in which the reporter operates should have fair reporting of that measurement that appropriately captures the operating performance of that reporter.

As I'd mentioned, how many times have we observed **moral hazard** gestate, grow, then seize its yield for the shrewd who planned and watched its unfolding? Used as fodder and operating in flawed judgment - seemingly competent, well educated, and well meaning people in positions of seeming authority but with the power to influence decisions such as this in concert or sequentially have made poor decisions to produce economic/financial, commercial, or governmental train wrecks.

Notice too that all of this with IFRS is on the heels of SOX and the protest about complying with Section 404. This also comes after 'modernization' legislation of over the counter instruments that permitted structurers to attach Exchange Traded funds to commodities in the spot market. That produced hyperinflation for individuals and enterprises. More than likely the SEC in 2004 permitting financial companies to operate on thinner capital margins, in turn enabled larger financial players despite FINRA F-4 monthly reporting compliance, to inflate their balance sheets with a great deal of self dealing.

We're also looking at where the NY Fed since 1993 has eliminated inspection or examination of broker/dealers that deal in US Treasury securities. We're looking at a Fed that takes great liberty beyond to laws or now within where the laws no longer bound the Fed. Gramm Leach Bliley imputed the Fed over the commercial framework, not necessarily by having repealed the Glass Steagall section of the FDIC act, but more where other clauses in the 1999 legislation enabled the Fed more power unless Congress reasserts itself over the financial system. Nothing even in the Bank Holding Company act or the original Federal Reserve Act legislation in 1913 gave it the power it is currently assuming. Meanwhile the biggest financial players all have cozy dealings with the Fed, with little restraints, discipline and effective punishment other than for the company to face acquisition by another player.

This produces the Too Big to Fail class of enterprise, and also enfranchises abusers of power again with little cramp to their style. Although I am not saying US GAAP stops or hinders any of this, audit is connected robustly to US GAAP, while it's not connected to IFRS. I reiterate, IFRS adds more confusion rather than less to the screens and tools used to analyze and understand commercial performance and associated management administration of those operations and associated performance. Consider Audit unconnected to an enterprise's public reporting which we're facing under IFRS. You have virtually no verification, NO TOOLs to test management and public accounting firm assurance credibility over the public reporting.

Other Functional and Mechanical Considerations beyond Moral Hazard

Meanwhile IFRS prohibits LIFO accounting for inventory. Liquidating LIFO layers will have another goose to intangibles in the deferred tax liability account. As these are temporary items, these will have to reverse and be run through the income statement. Balance sheet inflation with larger tax consequences during times of economic uncertainty fouls with economic prospects beyond what you know your operations will produce with some predictability. Moreover, the risk also is that the IRS treatment of liquidating LIFO layers although we know how under today's tax regime this is treated, what sort of offsets there may be from inventory write-up, the wash of that and what the IRS will do to corporates caught in this bind.

M&A considerations - In Europe big corporates which dominate their commerce, their list of publicly traded companies and the associated reporting and investing regimes, historically controlled or had control most R&D and new development, while in the US, much of this has occurred outside our big corporates. In the US we have a more robust or since the recent past have had a more robust PE practice and number of players. Our reporting model has more specific treatment across commercial sectors for various sorts of investments. With their big public corporates along with their mid tier public companies, Europe has far fewer publics than our own vast listing of large medium and small public companies, in our large homogenous commercial system. And although the EU is attempting more consistent treatment from sovereign to sovereign it is not generally attempting to address financial reporting for specific sectors. The US is less likely to consider going along unless IFRS is consistently applied across all European jurisdictions, more sector specific, and prohibits any self interested influence in promulgating process which is to be mitigated before it could or would thwart a fair, robust due process. I think however, past is prologue.

Push down accounting does not exist in IFRS and portfolio companies under IFRS would not be saddled with amortization of intangibles arising form purchase accounting, as in US GAAP. Even though under GAAP, the measure of the economics recognizes intangibles and associated amortization, it is not recognized in IFRS and is a European custom that their big corporates would not want to incur.

IFRS also eliminates some of the reporting structures that advantage investing strategies here, such as PIPE investing, because the lower interest charges and associated primary accounting benefits from an earnings and EPS stand point, associated with PIPE investments are eliminated when taking the form of convertible debt.

IFRS distinguishes between research and development costs allowing for capitalization of development costs provided certain criteria are met. While in the US under the era of the ASB and now the FASB wanted to eliminate the abuse or potential abuse big corporates may have been doing prolonged R&D without conclusion or substance, where big corporates could avoid expensing R&D, while under IFRS, an easier test criteria exists for capitalization, and in turn lowering or eliminating expenses run through the income statement. It was/is customary in Europe for their big corporates to engage in R&D, while less interested to expense such associated costs through their income statements. Given their Big corporates have/had had more power over their accounting rules setters, again, they would influence the results of reporting rules to be self-advantaging.

IFRS also requires a one time assumption for impairment. Where if it is a portfolio company the potential impairment results from the economic cycle, different treatment under IFRS will foul the future valuations of the measure of the economics of the investment.

IFRS also has more lax revenue recognition guidance; investors and other stakeholders would want stronger tests for management to be able to recognize revenue, rather than having to back out of earnings assumptions of recognized revenue that failed to materialize. Lighter tests failed help the IFRS reporters to float above the credit bubble and associated correction. Many of the restatements occur because of problems with revenue recognition, perhaps included in the complexity argument. US GAAP and SEC staff literature provides detailed guidance when a sale consists of more than one element. US GAAP will defer recognition when the necessary documentation for a transaction such as evidence of an incomplete arrangement while IFRS contains no such recognition criteria. IFRS also contains no treatment for extraordinary items and runs these through the income statement relying on the principle that any matter that is important to an understanding of the financial statements should be disclosed. and I am assuming above the operating line.

Consider also if IFRS reporting inflates the earnings, intangibles such as deferred tax assets and in the case of inflated earnings higher than under previous years although not higher because of operating performance, but higher because of the new reporting framework, we will see grand scale inflated deferred tax liabilities. Although I am not a CPA, at some point those reverse and pass through the income statement. At some point also the inflated earnings play out and associated tax consequences come due during earnings flattened perhaps during periods of eroded commerce and the issuers' reporting of their measures of their operating.

IFRS reporting increasing intangibles will inflate the balance sheet when inflated earnings increases a reporter's tax bill different from cost basis and other context in which complyer with US tax/IRS would incur where IFRS deviates from that. Add to that more obscure balance sheet action and more Fair Value estimation in the hands of the 'advisors', consultants, and associated agents assuring on behalf of management, we're more at risk for agency and other middlemen associations' self dealings. Yet another Tower of Babel. Meanwhile corporates contribute only 9% of domestic tax revenues, while the voters' share has increased from 60% in the years before 1979, to 91% at the present time.

I could be wrong, but with or without transition of IFRS, I've seen where management reporting their performance when and after advantaging itself by off-shoring production under 'free' trade agreements. In time restructuring charges and then subsequent labor 'saves' and other 'saves' coincident with operating in a low wage, low regulation sovereign play out after passing through the income statement. Management chest beats it has performed and improved earnings, although it will and has heckled FASB for attempts at cozy GAAP, and heckled Congress for other 'free' trade agreements. We've seen the repeating the cycle of management off-shoring production to less developed sovereigns, running restructuring charges through the income statement but then they probably also having a slush fund and perhaps a future point to 'recapture' some of those restructuring charges back through the income statement, although the regulators and the accountant watch to prevent that, but regardless.

IFRS will not stop this sort of management self dealing nor will it stop reporting largess to suit managements' self interests, off-shored production or otherwise.

Another Note about Interest to Reduce Complexity

Adopting IFRS will fail to reduce complexity in the reporting model. Complexity exists in part when in the promulgation due process, management and its alliances have access to chisel FASB for statements that will boost earnings greater than what operations actually produced. With management comp often connected to earnings measure, the public financial reporting process has somewhat influenced US GAAP to suit management self interests. Publicly reporting earnings affect stock price which affects management comp. More restatements occur when management misrepresent earnings and will do this when managements' comp packages are based on stock prices or earnings. IFRS cannot stop this nor address this as complexity.

Europe's commercial framework and the on-goings of its big commercial firms which also probably are included in due process of their GAAP, are different enough from US domestic commercial climate that even their "C-suite" executives receive lower comp than US counterparts. Only recently has it been observed that their C-Suite salaries and comp strategies have been resembling those in the US.

In defense of IFRS, however, it ignores SPEs and SIVs and similar securitizations. The European financial companies structure bonds using their balance sheets while in the US, larger financials either will sell the assets to a securitizer such as Fannie or Freddie, or themselves like WAMU when it securitized its own originated mortgages. Much of the credit bubble and associated correction lenders produced because they had off balance sheet vehicles in which they could flip worthless paper and other risk related constructs such as over the counter counterparty items that 1999 legislation relaxed market tradability. Structured investment vehicles such as Specialty Purpose Entities "SPEs" could hold mortgages of all sorts of quality from 'A' paper otherwise known as 'Conforming" mortgages to the least credit worthy mortgages our history has ever known to be originated, as well as layers of derivatives and loans and other sorts of investible items.

European banks and financial companies similarly may have originated some of this same sort of worthless paper, however their financial institutions had to finance from their balance sheets rather than establish investment vehicles that had the ability to avoid scrutiny while they existed off of the balance sheet. Whether European regulators required accountability was another matter although these structures where done on the balance sheets of the European reporters.

I support what improves transparency and encounters requisite for full disclosure.

Afterthoughts and Concerns

Reverse the moral hazard that lurks to devour where it can at the expense of the many to advantage a few.

Among other aspects of the moral hazard we are witnessing, although yet without any real traction to do damage to our commerce are 110 large US companies which may use IFRS for their SEC filings at the end of the fiscal year 2009. Although they would have to provide an audited GAAP reconciliation report or 3 years of unaudited reconciliation reports at least giving some context to understand the disclosure, what good does 3 years of unaudited reconciliation do when management can report non-assured financial statements?

I suspect the management influence on assurance and audit has yet to reach the current status of 'convergence' between US GAAP and what the IASB has been promulgating, let alone support IFRS. How do stakeholders and regulators hold management accountable when there aren't or matured, sufficient fail-safes and checks/balances to thwart abuses/abusers, catch and discipline abusers and abuses?

In addition, audit has yet to exist by and large to match IFRS. Until that exists, this SEC also can repeal the decision to exclude IFRS reconciliation with US GAAP.

Meanwhile foreign reporters that operate here reporting in IFRS are said to lack comparability with US GAAP filers or even with each other, for that matter as IFRS application management may broadly interpret and override if they think that is more Fair than the Standard.

Consider when experts engage in post mortem on a financial train wreck which moral hazard drove. Consider now the entire matter long before we are well into adoption/implementation of the European reporting model on our commercial framework. Dissect for consideration the components of what prospers moral hazard, not to mention, what happened that we suddenly would embrace the European reporting model? Did they hijack our economy and now we have to report their way so as to make it easier for their fiefs' bean counters to measure and report the booty from across the pond? Why would we consider going to a less robust reporting model unless it was to obscure things? If people tell me they're going to cut off my leg when even if one is slightly longer than the other, because they chose for themselves to go without a leg, does that make it better all in all for me. In effect we're talking about regulators who think it is OK to go to a less thorough, thus inferior reporting model, but we'll adjust. It seems idiotic and relies on the bigger fool ploy.

Europeans went into the economic union. The only commercial sovereigns whose commercial environments prospered were countries like Spain not too long after Franco's regime ended and the former Warsaw pact countries which existed at a far lower quality of life than Western Europe. They've been aggressive embracers of IFRS to hide the economic slow downs in the more developed western European countries that lost production to Eastern Europe and Spain. As IFRS tends to inflate earnings and one could argue obscures slower or slowing commercial activity upon and shortly after adoption IFRS reporters have found that advantageous. Meanwhile knowing the practices and sovereign jurisdictional self interests there still exists influenced by each accounting body in the developed individual sovereigns that look to keep some self serving influence over international GAAP promulgation.

Is there some unseen, but craven hand looking to erode the US commercial framework to the status or a lesser developed sovereign. Perhaps not a '3rd' world, but definitely feebled. Obscuring this feebled status in the US some perhaps are interested to risk attempting to use Fair Value and IFRS to hide the domestic commercial erosion under the North American economic integration occurring in compliance with NAFTA. Moreover 3 other 'free' trade agreements and 'fast track' legislation occurred under the Bush Administration also off-shoring production and eroding state and regional commerce. Academic experts who have analyzed NAFTA have acknowledged that the only benefactors of 'free' trade agreements are the bureaucrats and elected public servants receiving campaign contributions, academics enfranchised by the institutions of the treaties, and managements who are advantaged by the ability to access cheap labor and low regulatory sovereigns. Given that the more developed commercial sovereigns are eroded, with quality of life and broader scale wealth development-accumulation there punished, IFRS will obscure this, as it is reputed to inflate earnings. Gross-grand scale use of Fair Value also will obscure economic slow down, although differently.

Because IFRS is a moving target, earnings will reflect how the balance sheet is managed. When balance sheet management controls earnings, retained earnings as we've known it under US GAAP and the associated tangible item that one could identify as 'wealth' and wealth accumulation with retained earnings growth, IFRS will pollute the manner and relative predictability that we've 'enjoyed' with US GAAP of our measures that factor into wealth development and accumulation. It's not only the commerce, legal framework and productivity and how the economics of all of these combined are measured that we've used, despite it's complexity and quality erosion resulting largely from management comp connected to metrics such as earnings growth, if we change, on what financial reporting can we rely to assure what we've got, that we've got. With US GAAP, stake holders and among those investors faced risks, but at least we knew those. Exported to us from our allies, the reporting Devil we don't know disserves us.

During the recent credit bubble correction, access to capital during a time of need while the economy is slowing in part related to correction after the easy credit overhang, I have wondered if there hasn't been some sort of hidden agenda championing the European reporting on US Commerce. Although I cannot argue that capital in Europe is accessed with more difficulty, it accumulates more slowly although I could be wrong, but, capital if also understood as wealth and associated accumulation as I have observed measured as a proxy by the Retained Earnings item, anecdotally when one understands commerce in Europe, where Net Income feeds retained earnings, the quality of retained earnings growth from real net income in the form of items that are monetizable are minimized and obscured when the balance sheet uses fair value re-measured items run through the income statement that grow or shrink the retained earnings.

In the US we have Other Comprehensive Income separate from Net Income, however we're still looking at arguably inferior quality adjustments to what has to connect to the Balance Sheet. Some GAAP had used revaluation accounts in Shareholders equity, while leaving sacred the Retained Earnings account increased with Net income or decreased with losses or other charges that management must take if 2 years prior to the current period's reporting.

One cannot argue that reporting complexity produced the credit bubble and correction. The financial credit bubble also was for the financial players to their part of the bounty before the collapse produced under 'economic integration' however capriciously and cynically achieved. Risks that our society is now moving towards socialized medicine, the corporates will attempt to shed assets but be forced to pay for socialized medicine similarly to the Europeans. I am not saying this will happen. I am saying with this administration and its internationalist leanings, in having favored big corporate interests, the risks for a quid pro quo of sorts which will run afoul with senior management comp schemes may encourage eventual demand for IFRS by big domestic reporters, international reporters reporting here, and large western sovereigns which want our conciliation to their interests after the prior US administration self-interestedly hoofed for large US corporates while having to quid pro quo large foreign corporates and their sovereigns. All in all that's painted the tangled conflicts of interest that do not portend for a less complex reporting model as all those pressures come to bear in the GAAP promulgation due process.

Respectfully submitted,
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