UNITED STATES SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE DISCUSSION ON

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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C O N T E N T S

P R O C E E D I N G S

OPENING REMARKS

CHAIRMAN COX: Good afternoon and welcome. I know that our commissioners are just getting settled, but I want to welcome and thank right off the bat, our distinguished panel, as well as all who are with us here in the auditorium, and those who are joining us by web cast.

This is the first public meeting for two of our commissioners, Commissioner Luis Aguilar, who was sworn in last Thursday, and our newest commissioner, Troy Paredes, who was sworn in last Friday.

So Luis and Troy, a warm welcome to both of you. We are glad that you are on board, and look forward to working with you as we tackle the very full agenda that we just had a chance to outline for the press next door.

Now, let me turn to our panelists, and extend to them both the welcome that you so richly deserve, but also the appreciation from the commission for the expertise that you bring to this and the necessary preparation, in the case of many of you who travel, in time and commitment.

We are very, very grateful for what you're offering to the public and to the commission and our process today.

I also want to extend that same welcome and gratitude to our next panel, each of whom will be properly introduced in turn.

Since the implementation of our IFRS reporting rule last November, under which companies are filing, if they choose to do so, in IFRS, without reconciliation back to U.S. GAAP, about 100 of our overseas registrants have chosen to file their financial statements in this way.

Even for U.S. GAAP companies, we are finding that the widespread and growing use of IFRS around the world is bringing them face to face with issues that arise in their capacities as suppliers, or companies working to make acquisitions, even when they set up reporting policies for joint ventures in which the U.S. company's venture partner needs IFRS to feed into its own reporting.

The use of IFRS around the world is affecting domestic and international companies alike. And here in the United States, it's affecting investors as well as companies.

What we hope to learn today is a bit more about the reasons that companies are using IFRS here in the United States, and the experiences associated with their doing so.

We cannot speak about financial reporting in 2008 without paying heed to the current times. We all know what's going on in our capital markets, and the job of financial reporting is to make those effects on issuers transparent from investors, whether it's the distinction of what is on the balance sheet versus what is off; whether it's equity versus income; whether it's assets measured and re-measured, as well as what the disclosures say. The entire package is especially important in communicating with investors during this current period of market turmoil.

And today we have the opportunity to hear first-hand about the experiences with, and the performance of, our accounting standards in this environment, which is a crucial stress test.

So to help us out, let me introduce first one of the IASB board members who is here with us today. John Smith has practiced as an accountant in the United States, and now works internationally at the IASB. So he is well positioned to offer some brief remarks, and a good transition between the perspective here in the United States, the commission and the dialogue that we will hear from our panelists.

So first things first. John, over to you.

IASB/IFRS OVERVIEW

MR. SMITH: Thank you, Chairman Cox.

What I'd like to do is tell you a little bit about who we are and what we are doing, what we are trying to accomplish. I am John Smith. I am a member of the IASB. There are currently 13 of us from various countries, including the United Kingdom, France, Sweden, Japan, China, South Africa and the United States.

We have 11 full-time members, and there are two part-time members. We are appointed by a trustee group who provide oversight and are accountable to the public interest. There are 22 of them, primarily from Europe and North America. We are funded by contributions from around the world, primarily corporations and the large accounting firms, although recently, some jurisdictions have started a levy system on listed companies.

We operate in the sunshine similar to the FASB. We have a highly transparent system. Our meetings are in public. Our documents for standard-setting activities are exposed for public comment. We often conduct public roundtable meetings and various projects with constituents.

We have an interpretations group that meets in public to interpret our standards. We have an advisory council that provides input to us, and we meet with constituents around the world very frequently, in terms of getting input. We were formed in 2001. Our predecessor organization, the International Accounting Standards Committee, existed for some 25 years.

We share the same mission it had: to develop a single set of high-quality accounting standards to be used around the world. That is, a common language for financial reporting. Our goal is to produce principles-based standards by establishing clear principles that can be used as the reference for applying the standard.

And we avoid as much as possible exceptions to principles and detailed rules. That said, that is probably one of our biggest challenges for the future, because we are constantly getting push-back from constituents, who want alternatives, want exceptions. And to the extent that we start accommodating that, we build a system of rules. So we try to avoid that.

Shortly after the IASB was formed, Europe announced that it would take our standards for listed companies starting in 2005. We spent considerable time improving, without fundamentally changing the set of standards that was developed by the IASC. The purpose: to get Europe's adoption of our standards in 2005, and establish a quiet period immediately thereafter, so as not to require additional systems changes.

In 2002, we started working with the Financial Accounting Standards Board. Our objective was to establish a process for eliminating differences between our standards.

Initially, we focused on short-term convergence activities. We then started producing documents under a memorandum of agreement with the FASB and the SEC.

We have recently established a 2011 timeline for completing projects under the MOU. We meet with the FASB twice a year. We have talked about increasing that through videoconferencing, et cetera, to enhance our communications. And a lot of our projects are jointly staffed with both the FASB and the IAS staff, so there's a lot of communications going back and forth.

Interest in our standards has increased significantly around the world with the adoption of our standards in Europe, and with the recent removal of the reconciliation to U.S. GAAP for foreign filers using IFRS.

There are now over 100 jurisdictions that promote or require the use of our standards throughout the world, and a number of countries, including Canada, South Korea, Brazil, India, Japan have announced plans to take our standards in 2011, or shortly thereafter.

So we're working diligently to complete the projects under the MOU by 2011, to once again establish a quiet period for the new wave of countries that will be taking our standards.

That's a little bit about who we are and what we're about. I thank you for giving us the opportunity -- the IASB -- to participate in your panel. And to the extent commissioners have questions, I would be glad to try to respond to them.

CHAIRMAN COX: Thank you very much, John, for setting the level for today's panel discussion.

Since I became chairman just over three years ago now, the commission has consistently made it a priority not only to work toward the convergence of IFRS and U.S. GAAP, but to envision and to implement a set of high-quality, globally accepted accounting standards that would be used in every major capital market in the world.

So without a doubt, this is one of the most important policy matters related to financial reporting in the U.S. capital markets today. Now, with that overview, I'd like to start the discussion and to introduce our first panel. I'd like to introduce our moderators, Conrad Hewitt and Wayne Carnall. So thank you very much for taking it from here.

Conrad?

MR. HEWITT: Well, thank you, Chairman Cox. It's a pleasure to be here today on this important subject that we have. My co-moderator is Wayne Carnall, who is the chief accountant of the Division of Corporation Finance.

And I'd also like to welcome the panelists, as Chairman Cox has. And I also want to thank the viewers that we have on the web cast. We always have a large number of viewers on our web casts that we have.

I will do the introductions now. Starting on the right of the stage, Leslie Seidman, is a board member of the Financial Standards Accounting Board.

Paul Boyle, chief executive of the UK's Financial Reporting Council.

Francisco Duque, managing director of Equity Research TIAA-CREF Investment Management.

Trevor Harris, managing director and vice chairman, Morgan Stanley.

Charlotte Jones, managing director and global head of the accounting policy group, Deutsche Bank.

Ken Marshall, partner in America's IFRS leader, Ernst & Young.

Matthew Schroeder, managing director and global head of accounting policy, Goldman Sachs.

And John Smith gets a second introduction as board member of ISB. I will now turn it over to Wayne, who will kind of set the stage for us.

Wayne?

PANEL 1: FINANCIAL REPORTING
IN THE FINANCIAL SERVICES SECTOR

MR. CARNALL: Thank you very much, Conrad.

Like Conrad said, it's really a pleasure to be here. I'd like to thank all of our panelists for agreeing to participate.

As Chairman Cox indicated, one of our objectives today is to discuss the recent experiences in the financial services sector, and how the implications of what is generically called the "market turmoil" has impacted them.

We are interested in the different perspectives that our distinguished panelists bring: that of a preparer; an auditor; a fellow regulator; and most importantly, the perspective of an investor.

We are specifically interested in understanding your perspective of IFRS and U.S. GAAP in this area, both come with accounting perspective and a disclosure perspective.

For example, do the accounting standards or the related disclosure requirements address the needs of the investors? Were there problems and challenges in preparing the information, and auditing the information?

And lastly, do you have suggestions for us, or the standard-setters, on how we can improve the process?

Con and I, and later Julie and John, will tee up a number of topics for discussion. And we'll direct our questions to one or two of you. But by all means, we encourage others to participate in answering the questions.

If you do want to add to a comment made by someone, just either raise your hand or tip your card, and we will call on you. In fact, we do very much encourage you to address those issues that you would like to add comments on.

In fact, we usually find that the discussion is more interesting, and the commissioners and us learn more, when you are engaging in discussion with each other. So if you have a different perspective from one of your panelists, by all means, feel free to ask them questions. The questions don't have to come just from us. You can ask your fellow panelists questions. And we encourage you to do so.

So again, we want to keep it as an open discussion. The observers, and of course the commissioners, can feel free to engage in any questions that they so would like.

And again, we will -- we hope you will share your views. At the end you will have a couple minutes to summarize any points that you would like to make. So we'll leave time for everyone to provide their thoughts and views on any of the topics that we've discussed today.

So with that, Con, I'll turn it back to you.

MR. HEWITT: Well, thank you, Wayne.

Our first topic for our panel today is on or off balance sheet issues. You either own it or you don't own it, in my estimation.

So I'd like to begin our discussion with the accounting models themselves, as they are the heart of financial reporting.

One dimension at the heart of establishing an accounting model is determining what items are to be recognized on the balance sheet, and what items are to be off the balance sheet. Some call it -- sometimes call it "de-recognition."

So let's begin with that. And I'm going to ask the first question of Charlotte and Matt.

What has stayed with you the most about your recent experiences in evaluating or working with the accounting principles that determine what is on or what is off the balance sheet, and why. In the financial services sector, I imagine these judgments are often made with respect to financial assets, or what the non-accountant might call a "portfolio of assets," such as receivables; or loans; or accommodations, or others, that has been cordoned off into a special entity as off balance sheet entities.

So maybe the two of you could focus on that and start us off, please.

MR. SCHROEDER: Yeah. I'll start. I think in looking at this -- you know, from both the U.S. and an international perspective, we're a U.S. filer. We encounter IFRS, though, from a client side.

In the U.S., it was really a -- you had three particular models. And it was very much -- depending on what model you were in, you had to figure out what set of rules to apply. And a lot of times those rules didn't make a lot of sense to us. And we are actually glad to see the FASB working to harmonize that.

On the international side, what we saw was really a lack -- what I would call an inconsistency, in the sense that you could really reach a different judgment, and you could be kind of hard-pressed to, if you will, disagree with a conclusion. We saw a lot more latitude; a lot more judgment in the international standards.

Charlotte, I don't know what your --

MS. JONES: Speaking from the Deutsche Bank perspective, which moved from U.S. GAAP to IFRS from the beginning of 2007, and went through its conversion program during 2006 and the back end of 2005, one of the biggest activities that the project encountered was indeed this area: in looking at all of the special-purpose entities that Deutsche Bank is involved with, working out whether the assets -- whether those entities should be consolidated; working out whether assets transferred to them had, in fact, been transferred.

And what we found at the point of conversion was that the very much more rules-based approach that we had followed under U.S. GAAP did require a lot of revisiting and indeed, a lot of different answers when we moved to IFRS.

To give you an idea, we consolidated an additional 200-something vehicles on conversion to IFRS, compared to our U.S. GAAP results. Part of that was driven by the very specific QSP rules, which were there around the securitization activities.

But also looking some of the vehicles caught within the Fin 46 model, we again found that specific rules that could give you a very clear yes-or-no answer for U.S. GAAP required us to step back, look at the entity in its entirety, look at the assets and liability arrangements with them, and required a much more holistic, better understanding of the risks and benefits of that vehicle and the bank's relationship with them.

So it creates -- going forward, once we were on IFRS for real, it created more work, in that you could never rely on any specific rule to give you a yes-or-no answer.

We needed to fully understand what was going on in the vehicle, or the suite of vehicles, and the assets and liabilities transferred to them in order to reach that judgment. So it was more difficult, more work. But I think it, on balance, gives a more realistic answer of what's going on.

MR. HEWITT: I thank you both for those comments. Under IFRS, the principle is more based on control, as opposed to the U.S. risk-versus-rewards type thing that we have. Yes?

MR. SCHROEDER: I introduce a question for Charlotte. Under international standards, is there really -- is there, in your mind, one standard or two for consolidation? We've heard this -- at least in some areas -- this phrase of "getting out of SIT 12," where if your -- somehow you can define an SPE a little bit more wider, you can then say it's not an SPE, and you can apply, perhaps, a different model that might be control versus risks and rewards.

And so I understand IFRS has one model, but some had said two, and I'm just curious if you could comment on that and your views on that.

MS. JONES: Yeah. I think one of the challenges when you are looking at a vehicle under IFRS, is "Are you in SIT 12, or are you just in IS 27?"

The question about when something is narrowly defined and therefore sits within the SIT 12 model, or whether you are in IS 27, is something that we find challenging, particularly around the funds business, and the managed funds business.

In substance, or in theory, there is no difference, because SIT 12 is an interpretation of IS 27. The two are very linked. But we have found that it is important to distinguish whether you are starting in IS 27, or in SIT 12, and that actually, depending on where you start, you could conceivably get a different answer.

And so, within the organization, we have been very clear on the triggers and what you need to consider in order to work out whether you are in SIT 12 or IS 27.

MR. CARNALL: Charlotte, can I ask you also a follow-up to a point you made. I just I wanted to clarify something. IFRS, when it comes to de-recognition, is very, very complex -- probably one of the more complex standards that we have. And I just want to get your perspective. Did you view that the application of U.S. GAAP was actually easier because you were following a -- I'll call it "rules basis" to determine what should be on and off balance sheet, versus IFRS, which you had described as more judgmental? Or was IFRS actually easier to apply?

MS. JONES: I would say that IFRS is not easier to apply. In the SIT 12, you need to really get to the bottom of the risks and rewards; the control; indicators of control.

And you have to understand the whole vehicle. When you are following the IS-39 flow chart around de-recognition, indeed, you have to step through all of the circles. But working out whether you transferred substantially all the -- retained substantially, or all the different questions that flow chart asks, there is still some interpretation and judgment required in order to work out where exactly you are in the flow chart.

So I would say more difficult. But some of that comes from the fact that IFRS is still less mature than U.S. GAAP. There isn't so much of a track record and guidance there.

CHAIRMAN COX: Charlotte, I had a question like Wayne's question. And it is with respect to the 200 entities that you ended up consolidating when you switched to IFRS. I take it that you've found the rules-based approach of GAAP to be easy enough to apply, but the answer was they could all be off balance sheet. And then going through the complex matrix of judgments that you had to make, you ended up putting them on balance sheet under IFRS.

I want to understand -- I want to know if that understanding is correct.

And then second, with respect to the follow-up discussion, with all 200, did you decide that they were within SIT 12?

MS. JONES: I think one thing that's important to remember is that the 200 that we brought on conversion, were all vehicles that had been created historically within our U.S. GAAP environment. So a large number of them were specifically set up as QSPE's, following the FRS-140 rules, and were -- you know, fine for that purpose.

Once we moved to IFRS and the QSPE rules were not applicable, we then did have to assess whether they were in SIT-12, or IS-27, and make a full analysis on that basis.

I think -- from memory, the last majority were assessed onto SIT-12. And we went through the assessment, we came to the conclusion that we did have control, in SIT-12 terms, of those vehicles.

We then needed to work through whether any assets transferred to those vehicles remained on the balance sheet. So it was sort of two-staged, looking at the consolidation and the de-recognition pieces.

As we move forward, and we are within an IFRS environment, vehicles are being established in a different way.

So some of them, if now analyzed under U.S. GAAP, may be on balance sheet from a U.S. GAAP perspective as well. But that's purely hypothetical, because we are now within an IFRS environment, and without the need to do the U.S. GAAP reconciliation, we don't necessarily analyze from the U.S. GAAP perspective.

MR. HEWITT: John, you had a comment?

MR. SMITH: I just wanted to back up on something in terms of the complexity of IFRS. It seemed like you were mixing models. We have a standard on consolidation, when you consolidate or not. And another standard dealing with the recognition of financial assets.

I would characterize the standard on consolidation a little bit the way you did, Conrad. It is an extension of the control model. It's an interpretation of the consolidation standard. And I don't believe it's complex, but it does require judgment.

Was the entity operating its operation on behalf of the other entity? And then there's a test about the extent of which risks and rewards have been retained. And that cutoff is a majority.

The de-recognition standard, that deals with whether a financial asset can be removed. It is much more complex, because it has both control, and risks and rewards.

But in addition, it requires, to the extent that there is continuing involvement -- that means that if there is a forward to re-purchase -- could make you buy it back, or a call in which you could buy it back, it does not get de-recognition to the extent of that involvement. But it is -- it's the de-recognition side that is more complex than the judgmental consolidation piece.

MR. HEWITT: Trevor? Excuse me, Trevor had a comment. And we'll come back to you shortly.

MR. HARRIS: Thank you. It's a comment, and a sort of follow-up along the lines of what Chairman Cox was saying. What I heard you actually say was that by requiring additional consolidation, or more entities being consolidated, you got closer to the economic substance, which is essentially what we are looking for as investors.

So I think that was what, at least, I heard you say. And I think that's part of the judgment that gets made. But the other point that I did want just to read to you is, I think one of our concerns -- and I will speak for a small subset of us, rather than broadly, is forcing consolidation and grossing up both sides of the balance sheet is not necessarily more informative for us.

Actually having an understanding of which assets are associated with which obligations and seeing where the risk is in the net of that, is actually much more informative. So while you made the comment about, "you own it or you don't," actually, what you own and where the risk is, is probably for us, more important than actually creating the leverage ratios, which actually don't make any sense in a practical sense.

MR. HEWITT: Charlotte, did you have a comment?

MS. JONES: Not on that. But just on John's comment on the continuing involvement accounting, just to say that if you get to that part in the flow chart and you do need continuing involvement accounting, it is incredibly complicated to follow through.

MR. HEWITT: Matt?

MR. SCHROEDER: Yeah, just quickly, on Trevor's point. We would agree. We are also believers that if you're involved with an SPE, or a VIE, and either you transfer it or you sponsor it, you ought to have a backstop, which would be more of a fair value accounting rule.

That if you were involved with -- if you sell one of these things up, you transfer assets, backstop it by requiring fair value accounting for those involvements. That's our view.

MR. HEWITT: Matt, back to your original answer. You made a statement that you were in favor of what FASB is doing with FAS-140 and FIN-46, concerning the off balance sheet items. In their proposal, they are planning to have a one-year deferral.

And do you think -- I have two questions. One, is that enough time for the regulators to adopt to maybe the new capital situations? And number two, would that result in a lesser number of off balance sheet items?

MR. SCHROEDER: Well, on the one-year delay, we think that's a good balance. We are in November year-end, and so logistically, we didn't see how the calendar could just physically work in that regard.

With respect to capital, we are on a Basel II framework, so leverage ratios per se are less of a concern. But I think one year, I -- you know, it's kind of hard for me to speak to that -- but one year seems about a reasonable balance between getting to the capital markets, I think, information that is needed on these entities, and getting that balance.

As far as the number of entities, certainly QSPE's will be no longer around, and so, at the margin, that will increase the number of entities that are on the balance sheet. I think it is certainly a function of what other involvements that you also have in -- for example, to what extent you were involved with servicing. And in our firm, just speaking -- we were not traditionally a very heavy servicer at all.

So I think you have to then look at not only that. You have to look at what other touch points, involvement's were you involved with servicing, et cetera.

Did you have -- what you have is power that matters, however you want to call it in that regard. But I think at the margin, clearly the number, if you get rid of Q's, the number of entities is going to go up. And then back to Trevor's point. Okay, fine, you gross-up the balance sheet.

And do you really have control? Or do you have control in some sort of contingence sense? And is that better? And is grossing up the balance sheet, putting on leverage and then putting a bunch of disclosure to kind of undo that, so you can really get at what the risks are; is that a better model, versus that more of a components with a pure fair value model, which is what we favor.

MR. HEWITT: All right. Well, thank you.

Are there -- any other panelist's comments on or off balance sheet?

Yes, Leslie?

MS. SEIDMAN: I'd just like to follow up on the point that Charlotte made about the holistic view, or the principle underlying IFRS. Whenever there is a significant problem in financial reporting, we, the FASB, try and take a look at whether there is an issue with the application of an existing standard, or whether there is actually a deficiency in the standard itself.

In the case of QSPE's, the principle behind the exemption from consolidation was if the entity's activities are entirely limited and prescribed up front, then it's reasonable to conclude that no one controls it. And therefore, it's appropriate for no one to consolidate it.

And each party who is associated with it would just account for its particular involvement. I think what's happened in practice is that the application of the standard has been stretched to such a degree that it's no longer recognizable.

So I think in this particular case, there is a combination of, perhaps, a lack of a clear articulation of the principle in the standard, and application that was not consistent with the underlying principle.

So as has been said before, we are planning to issue a proposal shortly that will rescind that exemption, and subject all SPE's to the same consolidation standard.

And I think there is likely to be more consistency between the outcome under U.S. GAAP and IFRS if that proposal were to become a final standard.

MR. HEWITT: Thank you. Yes?

MR. MARSHALL: Well, thanks. I think that from an auditor's perspective, and to what Charlotte was talking about with regard to bringing more SPE's on balance sheet, she was really referring to some literature in SIT-12 -- there's four paragraphs essentially, or four sub-bullets. And it's more of a qualitative assessment of whether or not to bring something on balance sheet.

There are two quantitative assessments, and it's been our experience that in many cases, even under IFRS, the qualitative, since you can argue about -- you know, in large part, forever, as to who should be the sponsor; who is it set up for; who is it established for? Often, one resorted back to the quantitative, okay?

And it might have been different in Charlotte's case. But I think what we've found is that often you'll find a very FIN-46-type analysis was being performed, even for SIT-12, okay, to determine the risks and rewards. And what you've found in this crisis is a very similar type of outcome.

The issue is of the risks that were being measured, and how they were being measured. The "how" is a little bit unique for us, because it doesn't stipulate it, whereas FIN-46 does. The question is the risks that were included in there, in that analysis. And I think that, both gaps frankly, suffered from -- throughout -- you know, as we saw in hindsight in this crisis.

MR. HEWITT: Anyone else? Let's move on to question two then, to Ken, since we've heard from the issuers and other people. What are the challenges for auditors in evaluating management's conclusions in this area? And does some of what Charlotte and Matt said resonate with your experiences? I understand you probably have an easy job in this area. I don't know --

MR. MARSHALL: It's considerably harder. I would -- everything I heard from Matt, and what I heard from Charlotte is consistent with our perspective. We have been working with various people throughout this -- the tail end of this -- well, I shouldn't say the tail end of it, but throughout the crisis, discussing the application of IFRS, also the application of U.S. GAAP.

But in particular, with regard to SIT-12, Charlotte made mention of the fact there's no real clear dividing line between when we moved from IS-27, which is all clear to everybody we start there, which is control model -- and, you know, when is there too little control to observe, to judge under that model, because it's not necessarily a voting interest model. And when do we pass over into this risks and rewards analysis, and/or this qualitative assessment that SIT-12 asks for.

And that's a challenge, because everybody has a different perspective on that, frankly. We have a view, okay? -- which we will share. I think the challenge is a consistent application in an entity as to when one is assessing control under IS-27, or when they are assessing it under SIT-12.

And clearly, judging whether it's a rational thought, and whether or not it's applied consistently is the challenge. And I would dare say there is probably differences in that assessment from entity to entity.

The second issue is not necessarily, and I just mentioned it, it is not particular to IFRS or SIT-12. It is which risks are included in the model, which risks are included in any quantitative assessment. And that's a challenge.

And then finally, how to measure that. And that is different in IFRS. We typically have seen people devolving very much to expected loss, expected model similar to FIN-46-R, because it's something that we can document and follow; okay? But that's our experience.

MR. HEWITT: Any other questions? Yes, Matt?

MR. SCHROEDER: I have to tell you I couldn't help but notice when I heard you say what risks will include how to measure them. It felt like 46-R deja vu all over again. So I --

MR. MARSHALL: Yeah, I don't think that we're asking for the son of FIN-46-R, either. As we talked to various constituents with regard to our experience with SIT-12. But certainly, we've talked about creating some more principled guidance, which would help explain how one might do the risk assessment, and that type of quantitative calculation.

But also, a little more emphasis on the qualitative aspects; okay? There is two paragraphs in that interpretation, which again, I said don't get paid much attention. And I think it would be very important for some more principled guidance on how one should assess the qualitative aspects of consolidation under SIT-12.

MR. HEWITT: Along that line, Matt, do you think -- or Ken, I should say, as FASB is proposing to change FAS-140 and 46-R, is that for the better you think? And does that make your challenges more difficult, or easier?

MR. MARSHALL: Well. we think it's for the better. We've been supportive of that initiative. We think clearly, once you start to ask questions about more qualitative aspects of consolidation, it will certainly make it more difficult, because clearly, auditing judgment is a lot harder than auditing numbers.

MR. HEWITT: Any other comments, Trevor?

MR. HARRIS: I mean, listening to this is actually, frankly, quite perturbing, because what we're hearing is a discussion about technicalities around what gets consolidated and what doesn't get consolidated.

The reality is if we look at it in terms of what is the likelihood that there is going to be a claim against the company or, frankly, some reward to the company as a result of these activities, the answers are not very difficult in my mind, in terms of at least, what we want to be seen.

So part of what I think the danger of what you are sharing, is that it's very easy to slip back into modes where you want bright-line rules.

As soon as you set up those bright-line rules, whatever business it is, is going to suddenly structure to meet those criteria. And you lose the benefit of the information. We want the information to know what is the probability of these outcomes that we're seeing right now happening.

And part of the difficult is it's never a single number. It's always a distribution. And events are uncertain, and we need to understand those. So if we are going to go down this route of asking for more interpretations of these principles, I think we are going to end up in no better situation in the future, when the next crisis comes along.

MR. HEWITT: Ken?

MR. MARSHALL: Trevor, not to sound like a flip-flopper -- and I am certainly not advocating more and more rules for the sake of rules. So I want to set the record straight. And by the way, I completely agree with you.

As we were preparing for a roundtable recently to discuss IFRS in this context -- I think it was in April, the firms, as we were discussing this, clearly believed that we run a risk of a knee-jerk reaction, okay, to the crisis. In particular, with regard to SIT-12 and IS-27.

And we certainly would not want to get into a position where we're consolidating entities for the sake of consolidating. But we frankly, don't have a place on the balance sheet. And there is a risk that we overrule base a SIT-12, or even over principle it to the point where we have assets on a balance sheet of an entity that will never cause risk.

And that, to Trevor's point, the fact is, we need input from -- I think, and I think the firm believes, input from the users as to what should be there, okay, as opposed to the hindsight reaction we have when its not there: Why wasn't it there? Okay. So any new standard, or any interpretation of these existing standards needs to take that into account.

MR. HEWITT: Matt?

MR. SCHROEDER: I actually share some of Trevor's concern, having seen this through many cycles. And I think we need a backstop. Again, I think what we went through in the capital markets -- we need a backstop. We need an early warning system that tells people what's going on.

And again, if you're involved in one of these things, you ought to be on fair value.

That's your early warning. That's your backstop. It gets information out. If you're seeing exposure, that's an early warning indicator that there's a problem going on. So I do share some of Trevor's concern here.

MR. HEWITT: Anyone else on that matter?

MR. CARNALL: Actually, Trevor, if I could ask you a question, a follow up. In terms of -- do you view the -- to address your concerns, do you view it more of an accounting issue, or disclosure issue or a combination? In other words -- in fact, that's following up on some of what Matt was saying, assuming we don't go to fair value for our items, is there some other disclosure that could be included that would address the concern of, perhaps, us grossing up the balance sheet to where you recognize assets, for which you'll never receive a benefit or have liabilities for which you don't have a risk?

In other words, the ways in which we can address the concerns that you would have from an investor's perspective?

MR. HARRIS: I mean, that's a long conservation. So I'll try and give you a brief anecdote, perhaps, that could help.

One of the more unpopular suggestions in the policies being to allow some equal set-off, which allows you to show and disclose both the asset and the associated obligations together, as opposed to only assets and the liabilities, and then to show the net exposure, and then risks around it, exposure probably in the notes.

So on the balance sheet itself you show the net amount, but you actually facilitate the disclosure of both the gross elements on both sides.

We actually have one example of that in the pension world. And when I first raised this in a forum, I was then met with "Well, then you have to consolidate the pension side," which I think is exactly the wrong answer.

So I think the simple answer to your question is, if we actually think about how assets and liabilities are matched, and what that distribution looks like through time, as you're supposed to do in pensions, then I think you get the right answer. And then we'll get the understanding, one.

But then you can get to see what risks there are, even, to some extent if you don't have the fair value.

MR. HEWITT: Yes, Leslie?

MS. SEIDMAN: I just wanted to quickly comment that your words got through to us. In the proposal that we're about to issue, we will be requesting disclosure in the cases where the entity was consolidated; clearer identification of which assets are pledged to settle which liabilities; and in the cases where the entity was not consolidated, disclosure in the footnotes to associate which assets are designated to settle which liabilities.

MR. HEWITT: Anybody else? Matt?

MR. SCHROEDER: Yeah, I just wanted to -- you mentioned all "items." What we're advocating is just those involvements where -- with a SPE that you've transferred assets to. We certainly believe in all items in fair value, broadly, but our view is that it's your involvements with the entity of the -- should be at fair value.

MR. HEWITT: I think we want to move onto question three, deal with how you analyze these things, and what disclosure you really want and so forth. And I'll address the question to Trevor and Francisco. In analyzing a company's financial situation, what does the disclosure about the associated risk by -- I would say also liquidity, potential financial effects and so forth related to these arrangements contribute?

In other words, how much of a difference does it make to your analysts, or analysis or review of a set of financial statements, in terms of understanding what is going on as to whether the assets in these types of arrangements are on the balance versus off the balance sheet, with the information about the arrangements disclosed? And does it make any difference to you?

MR. DUQUE: What I would say, what are the critical questions in the last year in assessing the banks is whether the companies are well-capitalized enough to sort of deal with the risks and exposures that they have. And I think that one of the difficulties that maybe Trevor was referring to is that because of the grossing out of a lot of these assets by one of the measurements, which is just according to us, you can have differences of 30 or 40 percent, were probably the reason a lot of economic difference between what the companies are doing under U.S. GAAP, which is IFRS.

So Deutsche Bank of course, is one of the clearest examples of that. But in general, you tend to find that European companies on these measure are much more levered. And I think that has resulted in a diversity of ways of looking at capitalization ratios so that you are not relying on the intangible according to assets, or what you applied in the U.S. It's not really applicable to Europe, so you have to use other things, and other ratios.

So I'll say that has been one of the big challenges in the last year. I think it's comparing capitalization between the two.

MR. HEWITT: Trevor?

MR. HARRIS: I have obviously said some of it, but I guess one other maybe observation I would make is part of the difficulty is not all these entities have locked type assets or obligations. And so part of it is actually getting more details about the components that actually go into all the asset clauses if you like.

And again, one of the fears I have is that consolidation -- if you look through time, analysts and investor groups have always asked for more desegregation of information. The notion of consolidation is you aggregate everything, okay. And then you just sort of classify it in a certain way.

So in many ways, we would prefer more information, but in a more desegregated way than just forced consolidation. And you know, consolidation has been tried for a long time to be resolved, and it hasn't worked very well.

But I guess the last point I would make is for us, some of this information has started to come out as the crisis has occurred. But what I think we don't get enough of is the distribution and the -- what are the situations and sensitivities, two different circumstances.

Just putting a number on the balance sheet and assuming we're done is really not the answer for us. And that's what I'd say we probably need a little bit more --

COMMISSIONER WALTER: If I can ask a question that's up a couple of levels, I heard Charlotte say earlier that IFRS really presented a more realistic picture. And then I heard Leslie say that "the changes that FASB is making will bring the outcomes more in line with IFRS."

Could some of you comment on whether -- on the "more" in Charlotte's comment about a more realistic picture? Are you satisfied that with the appropriate accompanying disclosure, that IFRS with the U.S. GAAP coming more into sync with IFRS, that both set of standards, or at least one of them presents a sufficiently realistic picture to really match up with the economics of what's actually going on?

MR. HEWITT: Go ahead John.

MR. SMITH: I'd like to respond if I may, or at least start. What were the difficulties I think, in this whole area, is we have different views of the economics. And when we were doing the improvements project, we asked -- we presented a simple example: I've got 100 receivables on my books. I sell 80. I keep 20. The 20 I kept is subordinate.

And so first loss goes to the 20. Forget the accounting rules, should it go off the balance sheet, I sold 80, or should it stay on? Those who believe in control, I've transferred the control, the benefits of those cash flows -- off balance sheet.

Those who are of the view that risks and rewards count would say they stay on the balance sheet. So no matter what we do, we realize that there are two very strong different views as to what the economics are.

And then we coupled that with there were some ten different marbles out there, the linked approach we've mentioned, the risk and rewards approach, a controlled approach, what the U.S. did, legal isolation, what we did. And our conclusion was that given that we were one of ten, no matter what we did, we would just irritate 90 percent of our constituents, because there is no agreement on that point.

MR. HEWITT: Anyone else want to comment? Trevor?

MR. HARRIS: I mean, John is right. The perception of economic reality is very difficult in a very complex set of circumstances. To put in a few pages, or hopefully with -- coming along, we'll have a little bit more to deal with. But it's already very hard to get all that substance in there easily.

That said, if you take John's example, if we'd actually understood the nature of the 80, and the nature of the 100, and we've been given some sensitivity around what could lead it to become 60, or 100, in terms of the assets itself. That would be the information we would interpret.

And I think part of it we'll get into some discussion presumably, about fair value. The part of the argument about fair value is the market is applying fair value, and if it has uncertainty, it's going to discount any information with what it has available to itself, so actually providing more information.

And to Wayne's point, maybe it's not going to be on the balance sheet or in the income statement at that point in time. But the market is going to take that and deal with it.

And in difficult times, we will discount it more. And that doesn't -- that's not always necessarily helpful.

MR. HEWITT: Paul?

MR. BOYLE: Thank you. It seems to be that we're teasing out here is the fact that developing a satisfactory financial reporting model is extremely difficult.

It's very difficult to reduce to some numbers on a page the breadth and complexity of the financial relationships that companies enter into. It's really hard.

And it's hard to develop a perfect model. Probably, no one organization has the monopoly of wisdom, nor the adequacy of resources to deal with all of the open questions. And commenting on the experience from the UK point of view, where we switched from UK GAAP to IFRS about three years ago, it seemed to us that the IFRS model was an acceptable model.

It was hard to say that it was better than the previous UK GAAP, but nor was it worse. It was different in some respects, similar in others. But the general impression was - from investor feedback, from market reactions - was that there was no loss of confidence in financial reporting when we went to the IFRS model.

And one of the challenges that people have in this area, and the comments from the panel have illustrated this, is that whenever there is a financial reporting difficulty, the call is always for more disclosure. And the reality is that some investors, perhaps Trevor you're one, can handle more disclosure. But others can't.

And I know that you've invested a lot of time here at the SEC in the last year on a project to reduce complexity in financial reporting. And we've initiated a similar project in the UK.

I heard today that one of the major banks in the UK has just released its half-year earnings release. And that is substantially less voluminous than the full-year financial statements. But it still amounts to 250 pages.

So this is really tricky stuff. And throughout all of this, we're having to make compromises on what's realistic, and to meet a number of conflicting policy objectives.

MR. HEWITT: Yes, Matt?

MR. SCHROEDER: On the disclosure piece, one of the things that we like about IFRS, and particular IFRS 7 is the holistic view of risk that it requires. I recognize its early years, and in fact, the first year getting it going.

But I think that's an approach that we would favor, and we would like to see, and would hope to see more in the U.S. move towards, because what we find in the U.S., and rightly so in the very specific and focused disclosures, but they get at slices. Slices of risk, slices of counter-party, slices of instruments. And they don't really kind of tie it all together in a holistic view.

I will say that preparers can add and help there. And we got a responsibility to certainly bridge that. But I think having a disclosure package that was holistic and integrated in the U.S. similar to an IFRS 7 model is something that we would support.

MR. HEWITT: Yes, Trevor?

MR. HARRIS: I'm sorry to speak again. But I wanted to pick up on IFRS 7. I know I thought it was going to come a bit later. But it's a really important point I think, because if you look at the two core principles, it actually says that "the company, or the entity, should disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from instruments to which the entity exposes at the end of a period." And it includes, but is not limited to credit risks, liquidity risk, market risk. And it's all the information that the management needs, or is using to actually understand the financial position and the performance.

That principle, if we actually had that applied - I accept the point about what disclosure -- but a chief executive office has a limited amount of capacity to deal with financial information. If that person is actually getting that level of information, that is hugely beneficial.

And I understand no companies want to give you all that information. But I do think it forces the hard question of what do we need to understand how to manage this business. And then that's what the investor will actually ultimately benefit from.

MR. HEWITT: Thank you. I think we have one last item here on this off balance sheet/ on balance sheet. I'm going to ask Paul here. I think you've answered part of the question. But how have the FRC's financial statements year reviews and consultations played out in this area, with respect to the UK issuers reporting in IFRS, as to differences with the U.S. GAAP and so forth.

I think you've -- I'll give you another opportunity if you want to add something to your --

MR. BOYLE: Okay. Well, thank you. We have the responsibility in the UK for reviewing financial statements of companies in the UK. And we've been reviewing IFRS financial statements for three years now.

That was the basis for my earlier remark about the effect of the transition from UK GAAP to IFRS. With regard to financial reporting during this year of market turmoil, it is a little bit early for me to give you a formal view, because most of our reviews of the '07 year-end financial statements are not yet complete.

We have issued comment letters to a number of companies. But we've not yet had, or fully analyzed all their responses. So I can't yet give you an official view.

But you know there are some examples we can point to. One of the highest profile casualties, if you like, of the financial turmoil in the UK was the bank known as Northern Rock. And we just ran into pretty well-publicized difficulties.

Northern Rock made use of -- extensive use of securitizations. All of the special preparer's vehicles they used there were fully consolidated. So there was full disclosure of what they were doing. They just took a risk and it didn't work out.

So we wouldn't see that as a financial reporting difficulty. It was an underlying business difficulty. And subject to the more detailed experience of some of my investor colleagues in the panel, our sense is that to the extent that there has been a loss of investor confidence in financial institutions in recent months, it's not been primarily due to a loss in the confidence of their financial reporting.

It's not that investors didn't really understand the -- there was more they perhaps, could have understand. But just to that point, and you know in a large bank, there may be, and Charlotte probably knows the numbers better than I do, but tens of thousands of different types of financial instruments, financial product.

So it is quite difficult to convey all of that. You have to make some effort of summarization. But to the extent there's been a loss of confidence in financial institutions, it's more to do with investors understanding the numbers, and liking what the numbers tell them.

You know they have kind of lost confidence in the ability of the management of some of these financial institutions to run their businesses with an acceptable risk/reward trade-off. And that's been revealed by the numbers, not concealed.

Of course there have been some surprises. And there have been some things that have popped back on the balance sheet. To some extent though, that's because the companies themselves have made different business judgments.

You know they've made a business judgment. Initially, they have put something off balance sheet. And then for reputation reasons, they made a different business decision to bring it back on the balance sheet.

But maybe we need to improve the disclosures here. And perhaps, there is a new category of assets and liabilities that we ought to disclose, which we might call the 'just off balance sheet assets and liabilities.' So which are the ones that we nearly consolidated? And what can we -- about those in a sensible and aggregated way?

MR. HEWITT: I'm going to turn it over to Wayne now, for a new topic. Wayne?

MR. CARNALL: Thank you -- Conrad. Actually, your -- to your last comment -- was analogized that it's somewhat like Broadway. There's Broadway, there's off-Broadway and then there's off-off-Broadway, so the furthermore you get removed, in terms of what the disclosure should be.

Actually, now we're going to talk about a non-controversial topic, and that is fair value accounting. And for purposes of this discussion, we'll assume that the assets and liabilities are in fact, on the financial statements. And we'll talk about how they should be valued, some of the disclosures that should be provided.

And I'd actually like to get into a question for Francisco and Trevor. Actually, Trevor, to your point about IFRS 7, we do want to talk a little bit about that. At a recent roundtable on fair values, a number of the investor representatives expressed desire for more disclosure, and valuation models used, assumptions made.

And also, very importantly, sensitivity to a range of estimates. IFRS 7 requires more disclosure than U.S. GAAP. In fact, when we issued our - what we affectionately referred to as our "CFO letter" - dear CFO letter in March, on terms of recommendations from MD & A disclosures, we actually did look to IFRS 7 in trying to gather some of the disclosures that companies perhaps should disclose in their MD&A.

And the first question, Trevor and Francisco, I'd like to get your perspective of is does the location of the disclosure make any difference from an investors perspective, whether it's part of the audited financial statements, or just simply in the MD & A?

MR. DUQUE: I would say not a big difference, as long as the information is disclosed. I think in the last year, the qualitative disclosure around the risk has been very important. And to the extent that you have had two different banks or different financial institutions following assets at different prices.

I think that as an investor, you have to judge the qualitative comments that they're making about why it is different from one company to the other. So I would say when a quarter is reported, or a half-year, as long as the information is disclosed, I don't think it makes a big difference to me.

MR. CARNALL: Yes, Paul?

MR. BOYLE: Can I just ask you a question on that, because this is something that is troubling us a little bit. You are saying you are sort of indifferent to where the information is disclosed, whether it's in the financial statements, in the footnotes or in the MD&A.

But as I understand it, and perhaps, Ken may wish to comment on this, there is a different level of auditor scrutiny and auditor responsibility, depending on whether the information is in the financial statements or just in the MD & A. And one of the benefits under IFRS is with the new IFRS there is a lot more information required to be disclosed.

Some of it may have been disclosed in the UK's operating of financial -- the business -- but now it's required by the accounting standards to be disclosed now can be incorporated into the financial statements, even if it's physically disclosed somewhere else.

But it is crucially brought within the scope of the audit. And when you said you were indifferent to where it was disclosed, does that mean you were indifferent to whether the information is audited or not?

MR. DUQUE: Well, I would say in these markets the timeliness of the information has been very important. So you were referring today when one of the UK banks reported -- whenever a company reports, is they -- what investors and analysts are doing, is probably looking for what is the mark to market. Or what is the evaluation of about six -- or six categories of assets, and sort of know what they are, which is sub-prime, other RNBS, CNBS, leverage finance.

And I think that's what my colleagues and my competitors do as soon as this information is disclosed. Yes, of course it makes a difference whether those statements are audited or not. But you tend to assume that what their preliminary disclosure will be sort of eventually sanctioned by an auditor.

It's changing so quickly, that I think at first, I think that as long as the company discloses that information, I think that's what the market wants to know. Not to wait three or six months, because the market conditions will be so different in three months from now, that I think we need the information now rather than then.

MR. CARNALL: I'd like to hear from Trevor, then actually Ken I do have a follow up question, a related question on that.

MR. HARRIS: The first part I'd actually like to answer is I always get uncomfortable when you talk about investors, because there are actually some very short-term traders who will take some parts of information and use them, and will not use a lot of this kind of disclosure. And then there are others who do more serious analysis, people like Francisco.

And I think when you go to that, the first piece of information that gets disclosed, the timeliness of that information is critical. And so in that sense you are indifferent almost, where it's going to sit in the financial statements.

But if it were proved to be disclosed at that point in time, even in a press release, and they are not validated in the financials, that would be extremely problematic. So I think we have to be careful about how we think about that.

That said, I do believe the information, being in a footnote, I mean maybe MD & A or footnote, is not that critical. And I actually do believe that most people would perceive that an MD & A is being validated without necessarily knowing the technical rules as to whether they are being ordered dutifully or not.

MR. CARNALL: Actually Ken, I'd like to have your perspective on that, in terms of if your view of the risks from an auditor's perspective are different? Obviously, whether it's inside the financial segments and outside, and whether that would limit the level of disclosure that you would agree to actually audit in the financial statements.

So does the fact that's included in the financial statements limit the value of the disclosure that would otherwise be provided?

MR. MARSHALL: Well, no Wayne. I think, as a matter of fact, what you'll find is already in 20(x) filing for foreign private issuers. You'll see information that's in the audited footnotes section, which would otherwise, we've argued for a long time, should have been outside of it.

And we would have rather -- and you'll certainly know where we would like to keep that stuff. We'd like to keep it up in the -- section in MD & A. Unfortunately, John is -- and his friends have written a standard which have put it right square in the footnotes, especially with management using that information to manage the business.

Am I uncomfortable about it? I am more uncomfortable than I was under U.S. GAAP, absolutely. For people using that information, not -- I mean the standards here are somewhat irrelevant. I think the information being used, and for what purpose, is what concerns me.

As we've seen with VAR for instance, that's only as good as long as we're operating in a normal operating environment, which we are not now. So to the extent that people are taking some comfort that a VAR number for instance, a value at risk number, because its audited in the footnotes, has become the number, okay, the risk number.

And it is not subject, okay, to judgment and error. It is a concern of ours, absolutely. Having said that, is it in the audited footnotes, in some foreign private issuers who have issued IFRS financial statements? It absolutely is.

Has it been subject to audit? Yes, it has. And to that extent, the level of audit though, I would say, probably differs with regard, versus whether it's an MD & A, with regard to auditing the underlying inputs to VAR models, and sensitivity analysis.

MR. CARNALL: Do think it has an impact on what ends up in the financial statements though, in terms of the level of disclosure? Would you be more reluctant to agree to audit or assign an opinion of certain information in the financial statements? That you'd be less concerned if it was in the front part of the document?

MR. MARSHALL: I think it is. And we've questioned from time to time, the use of risk numbers, if we don't feel that management's -- that there has been a fellow vetting of a model. For instance -- model, the sensitivity model, and whether that should be included in the footnotes under

IFRS-7, because again, it's explicit that it should be done only when management uses it, okay, to manage the day to day risk of the operations.

So there had been situations where institutions have tried to put things into footnotes, which we felt was not appropriate, okay, and that should be left outside of the footnotes, largely because of the ordered ability of those models.

MR. CARNALL: Actually Charlotte, if I could also get perhaps, your perspective as a preparer of the financial statements. Does it have -- since you were a U.S. GAAP, and now filing under IFRS, does the location of the information have any impact on what you are providing, or willing to provide?

MS. JONES: It certainly makes a difference to the process by which the data gets compiled within the organization. When we were looking at what we should do for IFRS 7, there was a whole series of that information that we had already been disclosing in the MD & A section in prior periods.

When we brought it into the financial statements, we brought in what was absolutely required by IFRS 7. Anything additional that we'd always disclosed in the MD & A, we certainly left it there. So we've got two risk disclosure sections. We've got one in the MD & A, and one in the footnote.

And we have only got what is required by IFRS 7 in that footnote. Now the reason that sort of creates a bit of duplication, was we wanted to be very clear what was audited as required by the standards in the part of the financial statements, and what was additional MD & A disclosure.

Would I say there is any more reliability for the section that's in the financial statements in the MD&A, or vice versa? The answer to that has got to be no.

The fact that we're prepared to present that information means it's been through the management review terms and activities that we've put in place to do that. But it still has a different legal standing.

There is a different responsibility to the directors of the organization, and the auditors. As a result, does it really mean it's any more reliable or credible? I don't think it makes any difference. But it is different.

MR. CARNALL: Paul?

MR. BOYLE: I think this is a significant issue that we need to find a way of tackling, because for exactly what you've described we've seen in other examples. And the matter of fact of this, is because of the differences in the underlying process and the level of due diligence that has to be going behind the numbers, investors are getting multiple different stories of what the risks are.

There are multiple different views. This is leading to duplication. It's leading to complexity. It's leading to difficulty in getting a systematic overall understanding of risks, because substantially, but not identically similar information is popping up in different parts of the financial statements.

And then maybe in the chief executive's statement, he'll want to say something about it. And the chairman might comment on a few things. So I don't quite know what the solution is, but this is something we should all work on if we are really serious about trying to give a holistic and more straight forward view.

We need to try and find way of breaking through this difficulty, accepting that there are good reasons why people do what you've done under the current relations.

MR. HEWITT: I have a question. Mostly the users that's related to disclosures of fair value and so forth, both under IFRS and U.S. GAAP. And that question basically is when we have XBRL, the interactive data available both under the international and U.S. GAAP models, will that help your analysis easier, more efficient, more compatibility by having that tool available?

MR. HARRIS: I'll go first. For me, I've participated in a roundtable here before on XBRL. For me, there is no question. I believe that it will open up an enormous opportunity to do improved analysis.

And we'll be able to benchmark very quickly against alternatives as to what people are doing. I also think it will facilitate some of Paul's concerns, because actually Paul, it'd be easier to handle much more information in a more efficient way, which is also what a lot of quantitative analysis does today, but with much less consistent and comparable information.

I also think it allows you to do much more sensitivity analysis. So I think that part of the difficulty with sensitivity analysis is understanding whether people are using like assumptions, like ratios and so on. And that includes even in the -- analysis.

There is more standardization today than there was five years ago. So there is no question in my mind that will be another big step in the direction of improving this conduct disclosure.

MR. CARNALL: Matt?

MR. SCHROEDER: Yeah. Actually, I just -- on a question for Charlotte, real quickly. Did you notice any appreciable cost in going from the MD & A to the audit? Was that anything that struck the large cost to do that? Or was that something that just kind of got folded it and done, and wasn't really a factor in getting this disclosure information from MD & A into the footnotes?

MS. JONES: You mean audit fees? In terms of -- probably a difficult questions to answer, because we were going through the first preparation of IFRS financial statements. There was an awful lot of change in our financial statements and MD & A during that period.

But because it had to go through SOX review, it had to go through audit review, and there was a lot more time spent, both from ourselves and from the auditors in getting that information into the financial statements, I would probably say yes.

MR. CARNALL: Trevor?

MR. HARRIS: I just want to make -- I am not sure where we are going on the next set of questions. But I want to make an observation about fair value that has not come up yet. And I know that Leslie was very involved in this.

But this -- given how difficult some of these measurements are, and how market-related prices -- actually where there was a market in normal times suddenly in this financial crisis there has not been. This level one, level two, level three distinction has actually been extremely helpful.

So we can all be critical about some things. But this has actually been an extremely helpful move in anticipating, or facilitating information at a time before the crisis actually took place. It's been very helpful at this point in time.

MR. CARNALL: Actually almost following up on that point Trevor, I'd like to actually address the next question to Paul if I may. Actually, first Paul, this might follow up on one of your comments. But I'm sure the world wants to know.

You mentioned that there was a company that the interim financial statements were 250 pages. What were the number of pages in the annual report, if you have an estimate on that number?

MR. BOYLE: It was approximately double that. And I did have a discussion with the CFO of this company. And he said, "that if you want to understand our business, there's no way you need to read 500 pages." "You only need to read 300." But he didn't specify which 300.

MR. CARNALL: I had heard -- I don't know if it's true, but I think that the post office refused to deliver one of the company's annual reports. It was just too heavy. And so it was just too big to be actually physically delivered.

But what does actually following up on the IFRS 7 issue and the disclosures of ranges of values -- because that is an item that we encouraged companies to disclose in their interim reports as part of our letter to a number of the large financial institutions. And virtually, none of them did that. Now IFRS 7 does require that disclosure.

And we looked at a number of companies that have adopted IFRS 7. And we did see, I'll call it a very high level of disclosure of ranges of values. And it'll usually be, I'll call it an aggregation of all the assets, all the liabilities.

And the numbers were actually quite staggering if you look at the ranges of values. It could cut a company's income in half, or more than double it. So it was a very, very large number that we saw, multiple billions for some of the larger financial institutions.

But we didn't see very much said, other than "here is the range." And we didn't see a lot of granularity in the information. And I was wondering, from your perspective, what you thought of company's disclosure so far, acknowledging that it's still relatively new in terms of IFRS-7?

MR. BOYLE: Well, I think you've hit on a key point there. It is relatively new. And as I mentioned earlier, because we haven't yet completed all of our reviews, I don't want to give you a definitive position on this just yet.

But I'm optimistic on this point. When we went out to the third year of IFRS implementation in the UK, I would say that each year has gotten better. The quality of information and the consistency of information, we think, has improved.

And I'm optimistic that will happen again, vis-a-vis IFRS 7. And the reason why things have got better is partly because people are more familiar with the -- there were a lot of pressures in year one implementation. And people have more time second year around.

But also, crucially, in the second and third years, people were able to do something that was simply not possible in one, which was to look at what their competitors had done. And the impact of the market forces in driving improvements I think is really considerable.

And IFRS 7 involves a significant additional amount of disclosure. And I guess when John and his colleagues finalized IFRS 7 and set an implementation date, they had no idea just what a challenging it would prove to be to implement it for the first time.

But let's remember, IFRS 7 was introduced for the first time essentially for December '07 disclosures. And my prediction would be that in the '08 financial statements we will see improved disclosures compared to '07.

And I think we'll even see that in relation to the half-yearly financial statements that are being issued today, partly because of the points that were mentioned earlier about failure to disclose tends to be treated with a great deal of suspicion by the market, partly because of people looking what their competitors have done, and responding to that.

And partly also because there has been exhortations by the SEC, by the Financial Stability Forum and others to improve disclosures. But there's a price we'll have to pay for that, which is a more paper, yet more data coming out.

And this will increase the cost to deal with the complexity issues. So I think as regards to our annual reviews of the IFRS 7 and disclosures, the source of questions that we are asking companies are: Have you rule-based this information as required by the standard on the package of information that's disclosed to management? And could you do a better job of describing the key assumptions that you've made in preparing information?

But these are areas that I think we'll see improvements in future years.

MR. CARNALL: I certainly agree with your observation Paul, that more does not necessarily mean better, that companies -- hopefully, we don't have 550 pages of financial statements. In fact, as I said, sometimes you can make it more understandable by providing less information.

Trevor and Francisco, I was wondering if you could share any observations on what you have seen to date, in terms of IFRS 7. Do you think it's conveying the message that needs to be conveyed, in terms of ranges of fair values and that type of information?

MR. DUQUE: I will agree with Paul's comments that this year, unfortunately, the information has become outdated very quickly because the severity of the crisis has gathered momentum so quickly. But I do think it's very helpful because -- going back to my comment about the capital, that the financial services companies have raised an unprecedented amount of capital in the last year.

And I think investors feel that it's becoming much more difficult to raise money. It's much more -- there is more reluctance -- investors to do it. So I think anything that helps you with the sensitivity in determining whether a company will need more capital or not is very useful.

So I would say the framework is useful. The timeliness of the information is questionable.

MR. HARRIS: So I went this weekend, in anticipation on this, to re-read some of the -- or to look at some -- some large financial institutions in Europe that -- international/national reporting centers generally, are always actually shocked at how much more information there was.

And to the point that something where there -- there was one particular company where there was some prime exposure that actually provided a set, or segment of the information as to where their risks were. They actually gave sense to the analysis.

And this was a large -- I won't mention the name of the country, but of an institution in the country which was traditionally known for arguing vociferously against IFRS application at the time. So I think that what -- again, this is only the first year, and I expected it to be much less.

How much you can take that information, and then, to Francisco's point, integrate that as the world is evolving very fast, I think is a bit more questionable. I think frankly, management has been shocked by some of these things.

So to expect that to exist in a reporting that is delayed is I think, part of the issue. So one of the things I think we'll see evolving out of this, is as people get more comfortable, we will get more timely information in a more comprehensive way.

And I don't think it'll be more pages. I think you'll find the MD & A -- notes disappearing, and that will save you a couple hundred pages. And it won't be the quality of the information. It'll be the quantity.

MR. CARNALL: I'm not sure it'll be a couple hundred, but hopefully it'll be a decline. Actually Trevor, if I could also follow up on that, and Francisco. Actually stepping away from disclosure though, and just focusing on measurement, do you think the accounting standards themselves provide sufficient information for a preparer, a user, to determine how fair values are determined?

Or do you think that there needs to be additional guidance in that regard?

MR. HARRIS: When you say "fair value to be measured," if you take the level one to level two/level three disclosures -- let me give you an anecdote that might be helpful. Speaking to a corporate executive who is dealing at an earlier stage of the crisis, he was actually raising a question to me.

He said, "if I apply what I see as something that we have been doing consistently, I will take a write-off of X." He said, "If I looked at where this particular index is today, it is a write-off of -- I could actually go and transact with a firm like ours or Matt's, or Charlotte's, and actually get a market price somewhere in between those two. Which is the right one at this point in time?

And my answer was "why don't you tell all three, because then we actually have some understanding." So I think the answer to your question is that you can't -- a rule that's going to deal with these kinds of situations and hope that you're going to get full information.

I think that's helping people -- and again this is embedded in the wording of IFRS 7, help people understand what is the basis for making the market. And again, this level one/level two/level three -- I don't believe within

U.S. GAAP we have consistency.

I don't think every audit firm can be consistent with -- we will learn how to do this. Or the companies will learn how to do it. But giving that information, and showing how it's evolving through time, I think that is actually -- I am certainly -- seeing that being used in the way that the market is actually -- level three evaluations and fair values, they are there; they are getting discounted relative to level one.

MR. CARNALL: Matt?

MR. SCHROEDER: One of the things I did before in coming here as well, was we looked into collateral disputes. And collateral disputes are simply: You call somebody up and say "you owe me money, you know, cough it up." And one of the things I asked is "was there any difference between a U.S. versus international?" "Did we notice any trends there?"

And the good news was no. Unfortunately, we had just as large number of disputes with both. So I think that, to me, is not necessarily the standard, although I think at the margins, the international standards could be tweaked a little with around the edges like: What is normal market conditions, reinforcing exit price.

But I think by and large, the same issues that we encountered, and we shared last month, was that it was mainly, in our view, an organizational and behavioral issues, in terms of firms being front-footed, pro-active, engaging in rigorous price discovery. And all the things that were said last month I won't go into here.

But again, we didn't find any noticeable pattern between the two standards.

MR. CARNALL: Charlotte?

MS JONES: Yeah. I would agree with Matt there. I mean, the issues that we've encountered with respect to fair value during 2007-2008 are consistent whether you are U.S. GAAP or IFRS. For the trading portfolios of financial instruments, the subtle difference between the definition in FAS 157, and the definition of -- gave practical day to day issues.

The challenge is still there when there is no two-way market. When the liquidity dries up, what sort of review and challenge should you put in place to come up to fair value? What appropriate adjustments are required to get --you close out an additional valuation just what's in place. But it is not an IFRS versus U.S. GAAP issue.

MR. CARNALL: John?

MR. SMITH: I'd just like to comment a little bit about that. In response to the Financial Stability Forum's recommendation as to setting up a valuation panel, it is interesting that they will have a number of people on the panel who have worked through these issues.

And what is interesting is they managed to do it. They were comfortable with what they came up with. But we identified a number of what we called myths. And one of them had to do with a collateral dispute.

If you think about it, two reasonable people came up at different estimates. And what that tells you that in a situation, or even in just level three, forgetting the crisis, there is a range.

And everyone is trying to come up with their best estimate of what that is. But that could differ. And it's important that -- it's a myth that it's one number. It could be a range of numbers.

MR. CARNALL: Yes, Ken?

MR. MARSHALL: I'd just reiterate what Matt said before. At the end of the day, what we found, okay, and Charlotte, no matter what side of the divide you are on, fair value is fair value.

And it's frankly, emanating out of the use of it in business. So thinking that we could strike out of the accounting lexicon and fair value would disappear when we are talking about collateral disputes is wishful thinking.

So at the end of the day, these businesses are run off of fair value. We have to audit it. And what we are finding is whether it's exit value or as defined in -- it's the same.

MR. CARNALL: Actually, I'd like to be able to continue. But I think we're running out of time. This has been very informative. And we very much appreciate that.

In fact, Con and I could probably spend most of the afternoon just asking more questions. But I'd first to just ask the observers if they have any other questions. And if the commissioners have any questions that they would like to ask.

If not, as we indicated, we would like to allow you time to actually just go down the panel and provide any closing remarks that you would. And so with that, if I could maybe, Paul, start with you. Thank you.

MR. BOYLE: I thank you. It's been very informative to me. I would not -- with U.S. GAAP to listen to some of the comparisons from my fellow colleagues. In Europe now, we essentially have a two-gap financial market.

The European companies are reporting under IFRS. But many of the non-European filers who are not within our direct responsibility are reporting under U.S. GAAP. And I've been struck by the similarities of comments being made under both systems.

Of course, the U.S. you've -- also in fact, we've had a two-gap market for awhile. And maybe informally, as companies were reporting under IFRS, and discussing their

IFRS results with their investors. And the commission's decision last fall to do away with the need for U.S. GAAP reconciliation in -- in appropriately defined circumstances has in fact, formalized the two-gap market.

There is one specific issue relating to the current market turmoil, which hasn't been mentioned so far, which I had wanted to raise. And that's the convention under both U.S. GAAP and IFRS, whereby companies can take credit in their financial statements for deterioration in their own credit worthiness.

Now this seems to me to be quite a difficult proposition to stack. But I read the basis for the conclusions on this, but -- but essentially what companies are doing when they report to investors, they say, "well, the bad news is that compared to last quarter, we are two notches closer to bankruptcy." "And well, the big news is we have got a credit of the income statement for this."

And this just, to me, doesn't pass the common sense test. And I've been trying to think about we could find an argument to deal with this. And on the asset side of the balance sheet, we sometimes undertake impairment tests where we look to see if the value of an asset is impaired.

I just wonder whether on the liability side of the balance sheet, we need an un-impairment test. In other words, if the liability is still 100, even though the market price of the liability is 80, perhaps we shouldn't treat as 80, and shouldn't take then the income of 20.

So I'd encourage my standard-setter colleagues to think about the desirability of an un-impairment test for financial liabilities.

MR. CARNALL: Francisco?

MR. DUQUE: Just two quick comments. One is, I think, to think about the timeliness of the information that the market is changing very quickly. And therefore, how quickly this information is disseminated is important.

And two is, I would say, the sensitivity of fair value around a certain number is also very important in trying to -- for investors to sort of evaluate -- it doesn't have to be the precise number, but if you have a range, I think that is very important for us.

MR. CARNALL: Trevor?

MR. HARRIS: -- the idea of a couple of things -- one is, I have an answer for Paul. The answer is actually don't use exit value, use replacement cost, because if you have to replace that debt, you are going to have to take a whole lot more.

So you can still get a fair value, but it's a different fair value. And I think you'll solve the problem. But that's just on the side.

The comment I think I want to leave with is that the biggest risk I see going forward in the IFRS, U.S. GAAP and standard-setting, is the potential delay through due process to deal with a very dynamic economic world. And that's, to me, where the biggest risk is for frankly, the regulators.

And the SEC historically, through the chief accountant's office, has always sort of reacted, and been there. And we need that in the international system. So that's one generic sort of caveat I would have to all that.

The last point on the fair value-type issues is if you look at the whole real estate sub-prime issue, the core of it is rarely -- I think people forgot that while we have financial instruments, and we have a lot of re-packaging of these rights and obligations, underlying there is something physical called a "home," and people who owe money. And actually, for us, what we really, I think -- and we -- but we really need is when you think about the sensitivity, it's not around numbers.

It's around core, underlying fundamentals. If we can find a way to capture that information, and provide us with that, what's actually underlying these financial instruments, then I think we'll all be there soon.

MR. CARNALL: Thank you. Charlotte?

MS. JONES: Thank you. Speaking as an organization that has made the journey from U.S. GAAP to IFRS, now that we are on IFRS, do we feel that financial statements are a good -- equality of financial statements that give shareholders what they need? The answer to that is clearly yes.

Has it made any difference in the way our businesses are judged by -- investors? I don't believe it has. I mean, there are a few areas that during the crisis have shown differences between U.S. GAAP and IFRS, which we might say creates some lack of level playing field.

To give you an example, the day one profit issue, some of the disclosures in 157 or level one through three, and what constitutes something in level one/two/three is slightly different to what IFRS 7 requires. Does it mean it's unfair, or does it -- no, but it creates additional confusion, because people are trying to understand two areas of complex disclosures.

And we've encountered challenges if we have entered into a loan initially, with the intention of selling it in the short-term. And then because of market conditions, clearly we now have a change of intent.

IFRS prohibits any re-classification, and a commitment to loan, whereas again, U.S. GAAP, in certain circumstances, leaves the option to re-classify, or the possibility to re-classify. And the comment on earned credit, there is some perceived, if not actual, differences between the way the way the earned credit issue, or non-performance risk issue is addressed between U.S. GAAP and IFRS.

So those have been little bits of noise that moving to IFRS has given us during this particular period. But overall, we'll be comfortable being on IFRS. We think it presents a good set of financial statements, yes. -- yes.

MR. CARNALL: Ken?

MR. MARSHALL: Well, having practiced on both sides of the Atlantic during this crisis, under both U.S. GAAP and IFRS, I could testify to the fact that each has its worth, each has its strengths. But neither really -- if the purpose of the panel is to determine how IFRS performed during this crisis, I would say it's held up.

And clearly, it's a high-quality set of standards. And when we talk about IFRS 7 in the lead here, it's clear that from what investors are looking for, IFRS is certainly providing. We believe the world at this point in time, is voting on what this standard -- what the global standard is -- high-quality set of standards ought to be. It's IFRS.

Again, given what we've just seen, I think, and we as a firm believe, that we ought to move towards a date certain as soon as we can, okay. So that we can start working in unison towards solving some of these issues we've talked about, whether it's consolidation, understanding fair value or disclosure.

MR. CARNALL: Matt?

MR. SCHROEDER: I chaired the securities' industry -- Dealer Accounting Committee. One of the things our group is doing is we have put together, we're putting together a whitepaper of various U.S. IFRS differences that we will be looking to I think, John, go to your group and see if we can have some dialogue on.

I think if we get some sort of an option or option phase, not sure what's coming down the pike, but that's something that how we get progress on those issues would be important to our group. I think the one that is probably near the top of our list is netting on derivatives.

We think that standard we don't agree with. We think there ought to be more of a credit risk focus there than some sort of the current focus.

But as far as how it performed in the current crisis, I share Ken's sentiments. I think with respect to off balance sheet entities, I think IFRS had a better model.

And -- said, I'm glad to see the U.S. moving there. I think fair value measurements was a draw. And I think fair value disclosures -- I like the holistic view in IFRS 7, the folks did the level one/two/three. FASB had the better VIE disclosure. So I'd call that a draw.

But I think that all in all -- I think it held up well. But again, our industry has got about ten issues that are very important to us, and that we consider in terms of how we would transition to IFRS.

MR. CARNALL: Thank you, Matt. Do any of the commissioners have any questions that they would like to ask? Yes?

COMMISSIONER AGUILAR: It's really a question for Paul Boyle. So as I understand it, when the UK shifted from UK GAAP to IFRS, they did it in sort of cliffed off the cliff for all public companies. And I understand private companies get to choose.

I guess my question is do you -- she said, "it took two, three years for people to get better at it." Hindsight, being 50/50, 20/20, 50/50 in UK. I understand that is the exchange rate.

Would you have done it differently? And there's a great confusion to the investing market, as a result of private companies being able to, at this stage, select one versus the other. Same companies in the same industries coming up with markedly different information.

MR. BOYLE: Well, I can think and deal quite easily with the private company point, because essentially from an investor point of view, there's no comparability issues there. If a private company is coming to the market -- an IPO, it'll have to convert to IFRS and build up an IFRS track record.

So there will be comparability at that stage. What we observe is that in fact, rather few private companies have chosen to go to IFRS. As -- the choice of how to move. Would you go for a big bang approach? Or a phased approach?

I think it depends. The decision on going for the big bang approach for the UK was actually a decision made at the level of the European Union.

Now there's 25 -- well, at that time there was 25 countries in the European Union. And effectively, looking at that marker as a whole, we had a 25-gap market.

So the risk/reward trade-off, when you've got 25-gap, is chaotic, okay. So going through one gap, mainly IFRS, was probably the right thing to do. I have to say though it was a bit of a brave decision. And we were quite lucky to get away with it, because there wasn't very much planning done.

And there was a huge amount of effort that had to be done by the private sector to make it happen. So it turned out to be okay.

I think if you're in a two-gap market, going for a big bang approach would be, frankly, heroic, because the -- you don't have such a big problem. If you've got a 25-gap market, it's almost an -- position.

So taking the risk of going to a new system is probably a risk worth taking. Obviously, it's your call here. But it seems to me that their tradeoffs are quite different. If you've got a 2-gap market, and both caps are well-established, to go the big bang, I think that's quite a big ask.

There's also, if I may say, the other big disadvantage of going for a big bang approach is that you have to get a massive amount of work done in a very short space of time. And if you go for a phase approach, or an -- approach, yes, you absolutely have a problem with scarce sources. The -- you'll find the price of IFRS expertise would be built up in the market.

And Ken's colleagues are going to charge premium rates for awhile. And over time, the number of people who are IFRS capable will gradually increase and the market price will come down. And this will allow those companies for whom the price -- the high price of going early is worth paying, they can make that cost benefit decision for themselves.

And then the others can follow if they wish, in due course.

MR. CARNALL: Thank you very much. I would like to thank all of our participants and panelists. This has been very informative. We sincerely appreciate the time you have spent with us this afternoon.

I think Con and I have both found this to be very informative. And so again, we appreciate your time, and also like to thank the input of our observers -- have been very, very beneficial.

So, Mr. Chairman?

CHAIRMAN COX: Well, thank you very much Wayne, and Con. You did an excellent job moderating. Thanks, once again, to our panelists. We are all very much looking forward to the next panel. But we'll also take advantage of this short break.

(A brief recess was taken.)

MR. WHITE: Good afternoon, and welcome back to our second panel. I am John White, director of the Division of Corporation and Finance. And I'm one of your moderators.

My co-moderator is Julie Erhardt, the deputy chief accountant in the Office of the Chief Accountant. And I actually wanted to pause for just a second. This is actually our fourth IFRS-related roundtable.

And Julie has led the charge on all four of them. And I have to tell you it is a truly thankless task. So Julie, just on behalf of all of us on the staff and at the commission, thank you for what you've done for us in the last I guess, 18 months of meeting us on these roundtables.

We're going to have the same ground rules for this panel as we did for the first panel, including an opportunity at the end for closing thoughts. I would also like to encourage the panelists to ask each other questions.

I thought that was a very nice feature of the last round through. So I hope we can do that again. So let me introduce the panelists. Starting on the right: Chris Craig, partner at Grant Thornton; Roger Graziano, a vice president at Credit Suisse; Bill Laux, senior director of financial accounting and reporting at Microsoft; Jeff Mahoney, general counsel at the Council of Institutional Investors; Paul Munter, partner in the Department of Professional Practice at KPMG; and Tom Robinson, head of educational content at CFA Institute.

We are also joined by our two observers, as we had on this first panel, and -- of course, by our commissioners.

So with that, Julie, I will turn it over to you.

PANEL 2: FINANCIAL REPORTING IN OTHER INDUSTRY SECTORS

MS. ERHARDT: Thanks, John, and good afternoon. I think we're going to continue the theme of talking about financial reporting in the backdrop of the current times.

And the focus though, I think, of this panel different from the first one, is the other industry sectors outside of financial services. As we can tell, and as Roger knows well, there is turmoil, if you will, in commodity prices: the price of oil, the price of corn.

And of all that makes its way into financial reporting also. So there's aspects, I think, that are timely to probe in that regard. And so let's start first with good old-fashioned accounting approaches to things like inventory, commodities, which brings about an element of fair value in the accounting models we have.

And also -- and I am speaking to maybe Roger to start us off with that, and then to Bob -- also in another aspect, or another way I think that fair value works its way into the accounting model outside the financial services sector is in thinking about revenue recognition, in particular, thinking about contracts for software perhaps, that have multiple elements and how to approach the economics there.

So maybe there's not so much turmoil around software, but while we are on the broad topic of fair value, and maybe Roger can start us, I'd like to probe the other ways that fair value works into the financial reporting model in IFRS outside the financial services sector. So maybe Roger, you could start out with your observations, or recollections, being a company who switched to IFRS a couple years ago, and was a reconcile to U.S. GAAP and then dropped that.

Maybe you can, first of all, talk about IFRS in these current times, just in terms of the prices of commodities and how the values come through the financial reporting in that regard. And then if you want to go back in your scrapbook to when you used to also provide U.S. GAAP information, and have any recollections in that regard, we'd appreciate hearing those.

And then we'll go to Bob after that, to kind of cover how fair value impacts the industry he's in, which is -- I won't say it's high-tech, versus oil as low-tech, because I'm sure there is a lot of high-tech things to discovering oil. But he's a little more of a less tangible product-driven environment. So, Roger?

MR. HARRINGTON: Thank you, Julie. I guess I'll probably just kick off by saying that from BP's perspective we do fully support having one set of accounting standards applied globally, and see that as a very positive move. And to us, IFRS does look to be the best set of standards to meet that requirement.

Our experience, we actually converted to IFRS in 2005, and since then have reported on a quarterly basis using it. And that has allowed, as we've found, to communicate quite effectively with investors.

We haven't had significant problems associated with transition for IFRS. We might come back later to some of the challenges of going through conversion. But as a communication mechanism, it has broadly worked.

There are challenges. And I'm afraid I'm going to head back to fair value and volatility quite quickly, which was quite expansive in the first panel.

And I'd like to throw out a couple of examples of some of the challenges that we face. And I think we are starting to see some of the accounting challenges becoming even more significant, given the high volatility in oil and gas prices.

The first one is actually about inventory accounting. Under IFRS, we account on a first-in/first-out basis, historical cost accounting. And this mean that in highly volatile markets, when prices are going rapidly up and down, that we experience a mismatch through our income statement between the selling prices for products and crude oil, and the associated cost of sale.

And that impact can be very significant. And to give you an example, last quarter, second quarter results on an IFRS, a 9.5 billion profit, around 2.6 billion of that, we think, related to volatility effects.

We actually disclose separate information to investors to help them understand what's actually happening in businesses outside of that volatility, because it is so significant. The second area I'd like to just highlight is firmly within IS 39, and fair value in applying it in a big commodity company.

We find that under IS 39, it requires us to -- derivatives related to some of our long-term sales contracts, which can go out ten years or so. And the value in -- go through our income statement on a quarterly basis.

And investors tell us that they need to very clearly understand the impacts compared to other aspects of our business performance. We also, because IS-39, as you've written, and specifically from the perspective of financial instruments, in our business we might well look at positions involving both holding of an inventory as well as associated derivatives.

And because the inventory is accounted for in a cost basis, and the derivative is fair valued, we can see timing differences appearing in our quarterly results. The consequence of that is that we start to have to provide additional bits of investors to -- additional bits of information to investors to allow them to cancel out these timing effects if you like, and understand what's happening in the rest of the business.

So I think those were the areas I wanted to highlight, to kick things off.

MS. ERHARDT: Just a quick follow-up before we move to Bob. When you reconciled to U.S. GAAP, did you -- for example, the inventory being on FIFO and when price revenue amounts are changing quite dramatically, did you have the same sort of effects coming through?

And in the maybe -- by derivative contracts to hedge your exposure or off-set your risks related to your oil supply contacts, was there also thematically, similar-type things coming through?

MR. HARRINGTON: I think on the inventory accounting side under U.S. GAAP, LIFO is a permitted formal evaluation of the inventories, and under that approach the kind of volatility effects you see is much lower, because the inventory your expensing is the most recent inventory, which is closer to the price of your sales.

On the derivative side, I think there are similarities between FAS 133 and IS 39. So I'm not sure there would be dramatic differences from this. But we do, when we are looking at commodity-type contracts under IS 39, we are actually focusing on quite the small number of -- within IS 39 to determine scope.

And I do think that's an area we would support being revisited to, to decide whether the scope decisions are actually right at this point.

MR. WHITE: Ron, does it make a different to you whether you are LIFO or FIFO?

MR. GRAZIANO: Well, that is true. LIFO is better for the income statement. But the problem with LIFO is then you understate your balance sheet, because you are taking -- you are leaving the cheaper goods on your balance sheet. So when you look at return metrics on -- seeing return on total assets, or return on none assets, you might inflate your return through having a lower inventory balance.

So either one can create problems. What we try to do as an investor, we try to adjust for either one. So if you're on FIFO, it won't make the adjustment to the income statement. If you're on LIFO, we'll make the adjustment to the balance sheet or wages to bring it all back up to fair market value.

Sometimes those adjustments are not that large. But in an environment like this it is. And it's also important when you have two firms. And under IFRS you have one method, so you know how to adjust. In the U.S. you can have two firms, very close peers like two retailers, and one will do FIFO, and one will do LIFO.

And the adjustments need to be made in order to look at the metrics. One other question: Do you have hedge and gains then on your inventory, that is off-setting directly that increase in cost? And the other question is: Your extra bits of information, do they often come through a conference call or do they come through in your MD & A, or where does that information actually come up?

MR. HARRINGTON: It's been an evolution actually, in terms of how we've provided the additional information that's been requested by investors. But at this point in time, we have actually -- we do actually now include it in our quarterly announcements.

So within there, we actually quote some numerical information to allow -- investors to quantify these types of effects. And forgive me, I've forgotten the first question.

MR. GRAZIANO: Are there hedging gains off-setting the inventory increases? Well, if your cost -- are more favorably affected, you might have hedging losses as a direct off-set.

MR. HARRINGTON: Yeah. I mean, we have looked at applying hedge accounting to these types of affect, and concluded that it just isn't practical for us given the current documentational requirements and particularly, the effectiveness hedging -- effectively testing requirements to actually put that in place.

So we just let it run as it falls at the moment.

MS. ERHARDT: So just to finish, or continue on before we move to the high-tech software, let's continue on inventories and commodities. So if I understood right, Ron, what you added is that in essence the professional investor like yourself, whether somebody is on LIFO or FIFO and has these volatile times, you are going to adjust either the income statement or balance sheet back, because each method kind of has a trade-off as to where its work is.

But one thing about IFRS is at least everybody is on the same method, so you don't have to think about how to adjust. It's the same adjustment everywhere. Whereas U.S. GAAP people are in various spots as a starting point, so it's a little bit tougher to adjust back to the kind of level playing field.

MR. GRAZIANO: Yeah, that's correct. And just to follow-up on your statement. On hedging, you do not apply hedging accounting. And that's actually a very important trend right now for a lot of companies that are not applying the specifics of FAS 133, or hedge accounting under IFRS, because of the volatility in the markets.

And hedge accounting, if you qualify for a cash flow or a fair value hedge, the benefits is that it matches income statement volatility with the hedging and derivative effects. But in volatile times like this, the benefits are kind of -- it's debatable.

But it's very interesting. A lot of companies, especially energy commodity companies, are now no longer applying hedge accounting. So you see increased volatility on the income statement and balance sheets. So it's something to kind of look out for as you go forward.

MS. ERHARDT: Do you they have the -- do economically, they have the contracts in place, the -- contracts to hedge their exposure to the commodity fluctuation? But they've just chosen for accounting purposes to let the volatility fall through the income statements?

MR. GRAZIANO: Yes, they are in place. But the ability and the cost, and the maintenance of actually matching what part of the hedge contract off-set the portion of LIFO inventory or sale of inventory can be very difficult.

So to get out of that, you just let all the hedging effects fall through the income statement as it happens. So it's really fair market value, market to market adjustments coming through the income statement.

MS. ERHARDT: Roger?

MR. HARRINGTON: Sure. Just one follow-up point on the FIFO/LIFO discussion more, if we all move to a world where everyone is reporting on a FIFO basis, I think our experience would be that investors would ask for the information to understand what the volatility is that is flowing through the result as it -- flow through the result as a consequence of that.

And then that therefore puts the -- on the issuer to also provide that additional information.

MS. ERHARDT: And when you -- just to be clear with that, when you use the term "volatility," in essence what I'm thinking is they want to see -- the revenues are in current dollars, because you know, what you are selling oil for per barrel, is what we see in the paper. I mean, broadly.

Well, I actually could have sold it -- awhile ago.

But broadly, its current revenue numbers in the income statement. But the problem is then they want to see it at its current cost numbers. They want to see what the cost of the oil sold would be, spoken in current times if you will.

And that's in essence, what they are trying to get at. So your point is if the accounting model doesn't perfect that in the income statement, they'll want a little ancillary information to cover that off.

So you can sort of see what your true operating margin is, unfettered by timing, if you will.

MR. ROBINSON: I just wanted to follow-up on Ron and Roger on the LIFO issue. The adjustment is actually quite easy if you have a firm on LIFO to convert them to FIFO, because you are required to disclose what the FIFO numbers would have been.

It's virtually impossible to go in the other direction. So if an analyst wants to see what BP would look like under LIFO, unless BP voluntarily provided that information, we wouldn't be able to see it. At least, currently under U.S. GAAP, if a firm is using LIFO, they provide us with all of the information we need to make that adjustment to see what FIFO would look like.

MS. ERHARDT: I was just going to maybe just go to the auditors, Chris and Paul, while we are talking broadly, inventory, or commodity prices and fair value. I mean, another aspect is, which we don't have in the oil industry where it's up, up, up is where it's down, down, down.

And you've got to take actual impairment charges associated with it. And fair value comes into that. But Paul or Chris, did you have any experience, or any comments about the accounting models in this area, just broadly in inventories? And be it the types of points Roger made, or be it when there is impairment charges and fair value works into that.

All right. Whichever one might want to go first.

MR. CRAIG: Well, first, on Ron's comments, I was a little surprised that you're seeing the movement away from a cash flow hedge, and that you'd rather see it going through the income statement on a current basis -- short-term price fluctuations. Most of my clients that are in the industries where they are exposed to commodity risk, specifically go out and schedule out their needs and their demands in the sort of upcoming markets.

And it seems like the way you are describing, is analysts are more interested in seeing those risk on hits in income statement, rather than going through other companies --

MR. GRAZIANO: Not that analysts -- analysts prefer, I think, the matching, because all the work is done. The trend is that really on the corporate side, where they're abandoning hedge accounting, and just letting things go through fair market value. That's the trend.

So yes. And I can't speak for all analysts, but from my perspective, investor, you'd much rather see cash flow fair value hedge accounting, because it matches the impacts.

MR. CRAIG: Now let's suppose -- on that BP would rather forego the documentation standards and take the hit through the income statement currently, rather than should we throw out the other -- of income. That's interesting. Most of my clients are moving in the other direction.

MR. HARRINGTON: Yeah. I mean, it's a practicality issue. I mean we are talking about multiple transactions, and we looked at the practicalities of putting in place the paperwork and doing the necessary testing.

And it is -- we believe it's too -- for the potential benefits of doing it.

MR. MUNTER: I guess it's worth observing Julie, that to your point there are, I find, more circumstances under IFRS where fair value is applied, either mandatory or electively outside of the financial instrument arena as compared to U.S. GAAP. You mentioned the impairment issue.

And we have different impairment models under the two platforms. But obviously, a striking difference is that U.S. GAAP, the impairment model, goes in one direction only, that we have impairment losses, but we don't ever have recognition of recoveries of impairment.

Whereas IFRS, if we are dealing with tangible, or intangibles, and we have an impairment loss other than for goodwill, we have the potential of recognition of the recovery of some of that impairment subject to some parameters about how much of it can be recovered.

So that creates additional situations where you have fair value applications under IFRS. There are other areas as well. You are talking about commodities, for example.

And if you fall within the scope of the agriculture standard, IS 41, then we have fair value application to those agricultural products, either upward or downward. And in investment properties as you know, there is an election to use fair value for the measurement of investment properties.

So there are a lot more circumstances whereby we are dealing with fair value measurements in IFRS applications than we are under U.S. GAAP. And so I think that brings into play the need to have very clear disclosure around that as Roger was describing, in terms of: What are the consequences of the, let's call it the day to day operations, the business model, versus the consequences of fair value adjustments?

And make sure that investors are able to understand both the overlay of the ongoing day to day operations with the fair value adjustments that are also being reflected in the financial statements.

MR. WHITE: But Paul, just so I understand. You've got differences in the accounting, but if the disclosure is there, then the investors can understand what is going on? I mean, I am looking to you Ron, or to you Jeff, to come in on it. Are you okay from an investor standpoint?

MS. ERHARDT: While you were thinking about that, I was just going to interject my experience. I mean, to the point about for example, you write down inventory because it's had an impairment loss, which both U.S. GAAP and IFRS, broadly speaking, asked for you to do the same thing.

And then in IFRS, if the inventory happens to make a comeback, you recognize that when it happens. Whereas in U.S. GAAP, in essence, if it makes a comeback on U.S. GAAP, you'll recognize that recovery when you sell it, it'll just have a bigger gain at the end.

So it's sort of -- you could have a debate down about timing. Is it better to in essence, show/reflect a comeback in the financial statements in the period that it occurs ostensibly, versus have it all recognized the day you dispose?

And we could have a debate about that, or Ron could maybe weigh in. But it's just like sort of a different way to speak to investors about the recovery, kind of real time versus later. Although real time, they are subject to some estimation. And later, when you actually have the sale, it's a hard number.

And then similarly, like investment properties, which in this country we know of as in essence, REIT's. Or you sort of view the shopping mall as not a place to buy clothes, but as a -- in essence, a cash generating security.

Yeah, my experience, which may be limited, so correct me guys if I'm wrong, but my experience is that the REIT's tend to -- their financial statements tend to avail themselves if recording investment properties. The shopping malls if you will, at fair value, because to them, the shopping mall is just a source of future cash flow. It's kind of like a bond.

And so they sort of think, given the choice under IFRS, they sort of think it better portrays how they look at the business than U.S. GAAP, which would have the REIT kind of do more traditional PP & E accounting. I can think of one more too. And I just bring it up, because it is sort of in that same vein.

And maybe Ron can react. But like IFRS says, property planting equipment, regular, old property planning equipment at a company can be carried at fair value if you choose to do so. And my understanding is -- first of all, I realize hardly anybody does.

But the reason that's in there is for the countries that experience hyperinflation. It's sort of back to the oil story. I mean, when you are in a hyperinflation situation, and all your revenues in essence, are in real dollars, and your other operating costs are in real dollars, like the only thing that sort of wasn't in today's hyperinflated dollars was the PP & E costs coming through the income statement.

And so IFRS had the option to revalue, so that your depreciation, et cetera, charges could also kind of be in current dollars, just to make the income statement kind of all current dollars when you are in a hyperinflation situation. Now that is as common these days, and so therefore even though IFRS has that fair value choice, you don't see it taken advantage of.

But it was sort of there, kind of like the investment property choice of fair value. It is sort of there targeted at a certain economic situation, and that's sort of a genesis behind it.

But I don't know. Ron, if you think the fact that it's there targeted at certain situations makes it more helpful to investors, or makes it more confusing, because there is a choice? Maybe you have a reaction to that.

MR. GRAZIANO: I think in the first panel, there was a lot of -- very long annual reports of -- more information. But I think more data, more data points is actually good, especially if you have an architecture like, say XBRL, where you can grab all this stuff.

And people can review data, more data points, what time they came in. Hyperinflationary adjustments is a good example, because you have certain countries that go on and off of hyperinflation.

So in Latin America, in five years, they have hyperinflation adjusted balance sheets. And then all of a sudden they drop it and then they go back. So you have a mix of balance sheets and capital expenditures, some are inflation adjusted, some are historical costs.

If we have more data points to say, "here is when it happened," "here is when they went out and off," then we can download that into a spreadsheet and do analysis. I mean, you can really get better return metrics and better assumptions on how much their assets are really worth.

MS. ERHARDT: Any other comments? Leslie? Sure.

MS. SEIDMAN: But I think Julie raises a good point. Is it the standard setters charge to describe what the right circumstances are for when that unique method should be applied? Or can we leave it in the hands of the companies and the investors to make those decisions.

These two particular items that have been raised, the investment properties, is a case where IFRS allows an option. And so we have considered should we change U.S. GAAP to allow the option as well? But repeatedly, we have been told by our investors that they don't like options.

So I'd be very interested in your view in this case.

MR. GRAZIANO: I think if you have options, but you have an extended history and also, the dates that the options changed, so if someone goes on and off of inflationary accounting, if you have the dates, that helps. Also, if you have significant issues like IFRS for example, pensions, you need a longer than a one-year or two-year history to say what the impact is on the balance sheet.

So -- year of adoption or transition, if you can have a ten-year table to say, "this is what happens if we capitalize R & D, or if we had leases on our balance sheet, or under IFRS principles, not just for two years, but for a ten-year period." That would give you more data too, or more information.

MS. ERHARDT: Bob.

MR. LAUX: First, I wanted to comment on a couple of things. The first one about more information, and maybe I took that the wrong way, as always having more information as -- I just caution that in every situation, that's not the best answer. And I -- we're a huge proponent of XBRL, and I think that's going to help immensely.

But -- with an Internet example of information overload, that we really have to look at the package of disclosure -- information. I think that's why it's so critical that the standard setters do a disclosure framework project, which the SEC had indicated was the high priority.

I think that actually -- moved up in the conceptual framework, or the disclosure framework, you just got to be careful that disclosing everything doesn't obscure the really important items. I'd like to get back to what Leslie had indicated about what should we do with these things.

Now I can comment on fair value as I believe we should go to fair value if it's thought that will provide better information to be users of the financial statements. And if there is volatility, and it really is volatility, then the income statement should be volatile for volatile times, and volatility is occurring, then the income statement just by default will be volatile. And that's the way it should be.

But what I caution, and I think maybe what Roger runs into, is like it or not, we have a mixed attribute model. And in my thought process, that's not going to go away for a long, long time. And one example I like to use is in tangible assets.

Not only -- the majority of the tangible assets are not even recognized in the balance at historical costs, let alone fair value. And for a company like Microsoft, our largest value drivers are in tangible assets.

So when people talk about "let's go to fair value," you really get the discussion of "well, how far do you go?" "And how long would it take us to get there?" And just think about trying to fair value all your internally generated and tangible assets, that would be quite a chore.

Maybe that's the right way to go, but it's going to take a long time to get there. So we got to understand that we have this mixed attribute model, we're going to have it for a long time. And we've got to try and figure out what is the best way to present information.

To Leslie's question, if I understand the question correctly, I think that probably the standard setter should help us in basing their expertise in what is the best information -- by talking to the user community, what's the best information to provide. Paul Boyle, earlier, had given the example of it doesn't make sense that you should have a gain from a deterioration in your credit quality.

Well, the reason you have that, if you theoretically go that method, is because all your assets aren't fair value. If all your assets were fair value, your deterioration, your credit quality probably would have had a much more unfavorable impact on your assets than it would have on your debt. And you would have a net loss in that.

But that's just an example of our mixed attribute model. -- I think it's the expertise of the standard setters to try and figure out in that mixed attribute model, what's the best way to go forward. So I think the standard setters, that's in their responsibility, Leslie.

MS. ERHARDT: Chris, you had your hand up.

MR. CRAIG: Just to react to something Leslie had said. I guess she said, "investors didn't want options, they just wanted to kind of be told." Just looking at that sort of angle, in giving management options gives them the opportunity to make judgment in their view, because it gives them an opportunity to really reflect -- have their financial statements reflect to what they see is their business.

So I mean, just giving them the opportunity gives management, in sort of our view, the way to prepare a set of financial statements that really truly reflect the underlying substance of what they feel is their business, versus just mandating that "no, you don't have the options." It kind of takes away from management the opportunity to really express what they feel is right.

MS. ERHARDT: Tom? You are leaning forward.

MR. ROBINSON: I'd like to speak a little to the optionality issue. I think in general, because we talked to our members about this, and we have had -- committees that debate these issues, the optionality of its case of something like the inventory method, where there can be different physical flows of inventory. So it makes sense to have alternative methods to match the underlying economics.

Generally, our investors that we represent don't like to see optionality is when it doesn't match the underlying economics. So if you're talking about something like historical cost versus fair value, we're generally not in favor of those types of options.

We are in favor of those types of options where management needs to match the underlying economics of the transaction to the reporting.

MS. ERHARDT: Yeah. And I think, just back to my PP & E, just your everyday PP & E, well, IFRS says in theory, you can elect to carry it all at fair value. I don't think hardly anyone does, and that's because at least right now, we don't really have that hyperinflation situation that has really been there --

So it doesn't really match the economics, because you are not going to suddenly flip your headquarters building every day. And so at least the market, it looks like, has disciplined if you will, people not to go use that choice just kind of for the sake of using it.

So they're -- to your point, they're sort of good options if you will, where you need it for different economic situations. And they're not really options, they're just alternatives to reflect different realities.

And then there's like probably, too many options where there is choices to reflect the same reality. And that's really where investors probably have a greater concern.

So I think you can't just broad brush -- well, if a certain accounting standard has two ways of doing it, therefore it's bad. You really got to dig under a little bit to get at it, and understand which are -- whether it's bad options, or less desirable or more desirable.

Roger?

MR. HARRINGTON: Yeah. I just wanted to comment a little bit more on the information being provided, and the comment around providing more information. I mean, we have 100 pages of notes in our form 20-F. So there is a considerable amount of disclosure in that document.

What I do wonder sometimes, is whether we are giving the right kind of disclosure. So I think it's right to say we should give more disclosure, if it's more disclosure of the right information.

And I think there is also a judgment to be made here about is it better to disclose information than actually record items in your income statement? -- an important judgment about which of those you choose.

So I do wonder sometimes, how much of that 100 pages of information is actually being used by investors?

And I wonder whether an exercise to go through and look at some sort of mapping between what we're disclosing versus -- which is built up historically I think to a large extent -- versus what investors are actually using might be helpful to get back to the core of what we actually need to give to people today.

MS. ERHARDT: Actually, that's a great segue, because I was just going to ask Jeff and Ron, that we have talked about fair value in commodity prices and inventory, et cetera. But do you guys have any reaction to the disclosures around this area?

So now we are talking kind of use of fair value -- but outside of the financial services sector, uses -- or in Jeff's case -- have any immediate reaction to the disclosure package that comes with these areas?

MR. GRAZIANO: One good example of the last year was financial subsidiaries. So you have automakers, retail companies that have basically, banks within the company that fund credit to their consumers. So you can buy cars, or you can lend credit at a retail operation.

And the disclosure around financial subsidiaries is very different in company to company, very vague and complicated to kind of decipher. And that had a huge effect because the financial subsidiary market heavily depended on assets securitizations, and asset securitizations heavily depended on sub-prime.

And that whole market really fell apart. And it's not coming back anytime soon, as it was. So now you have a lot of companies that have the financial subsidiaries, that have an increase in debt, because they have to raise that, less sales, because they can give their customers less credit and higher interest costs, higher costs of borrowing.

And if you are not an expert in this type of business or banks, it was very hard to analyze these companies from a traditional method. Just looking up -- disclosure on the balance sheet and income statement, and then going into the footnotes.

So that's one area where we can say there could be a lot more information and consistency across companies.

MS. ERHARDT: And would you say that's true IFRS/U.S. GAAP --

MR. GRAZIANO: Yeah. That gets into the whole qualified, special purpose entities. Some of them are on balance sheets. Some of them are off.

And even when they are on balance sheet, still the disclosure is somewhat vague for that size of an operation. The financial subsidiaries were very highly trained businesses, have a lot of assets and a lot of debt.

And the level of disclosure is just not adequate from an investor standpoint on both IFRS and U.S. GAAP.

MS. ERHARDT: Let's go to Jeff. And then I think Commissioner Paredes has a question after Jeff jumps in.

MR. MAHONEY: Thank you. I think one of the areas that I've heard a number of investors express concerns about with respect to disclosures is in the area of revenue recognition. I think a number of investors here in the U.S. believe that there needs to be some better disclosures there under the IFRS standards.

I also wanted to agree with my friend Bob from Microsoft on the idea of a disclosure framework. I'm co-chair of the Investor's Technical Advisory Committee to the FASB.

And we sent a letter in December to the FASB, as well as the ISB, encouraging them to adopt a fast-track project on a disclosure framework. We think there are a lot of benefits to doing so, including just in the area of standard setting efficiency to have a disclosure framework in place that could be used going forward.

But more importantly, we believe a disclosure framework, if done well, and I acknowledge it'd be difficult to do so, would enhance -- could very well enhance the quality of the usefulness and the consistency of disclosures. Hopefully reduce the level of a number of disclosures as well and still provide good quality information to investors.

I was pleased to see that the SEC's Advisory

Committee on Improvements to Financial Reporting picked up on ITAC's recommendation on disclosure framework. As Bob pointed out back in 2005, the SEC staff encouraged the FASB to work with the ISB on a disclosure framework.

So I think the time has come to seriously consider that recommendation. I know the FASB has talked about it some as of late. And so has the ISB. But it's not yet on the agenda of either the standard setters, and I think a number of investors would like to see it there.

MS. ERHARDT: Okay, thanks. Commissioner Paredes?

COMMISSIONER PAREDES: Great. Thank you. One of the things you heard in the earlier panel was some discussion from Trevor, and I think others, about what investors, or at least in Trevor's case, what he would like to see in certain settings.

We heard Ron I think, mention that he is frequently making adjustments -- appropriate. And then a few moments ago, Julie, you mentioned of the discipline of the market. And so one of the questions I have, and perhaps this is addressed to Ron, Roger and Bob, but the others can feel free to chime in as appropriate, is at what point does market discipline, market pressure, the demands of investors actually lead issuers to do something in addition to whatever happens to be required by the particular accounting standard, whether that's IFRS, whether that's GAAP? That certainly you have to comply, but that doesn't preclude you from fleshing out the disclosures in response to whatever the market happens to be demanding.

MR. LAUX: My first reply is the user community, I'll say this lightly and not derogatory at all, is a fragmented community of a lot of different users of what they want. So there's a lot of different requests, and rightfully so. They are looking for different information.

So sometimes that demand pull we see as difficult from the investor community, because it is so diverse of changing disclosures. So in my opinion, I think what's really necessary is companies to think about transparency. And there is required disclosures. And those required disclosures, just like for us, could be 100 pages.

But trying to think of the best way to transparently communicate your information, because usually the company know best. If you can be transparent on the information, the good and the bad, I think you can help provide a better package.

And it's more a supply push at times. And I was very happy, and Jeff had mentioned the special committee on improvements to financial reporting where they looked at items such as the use of company web sites and XBRL, and key performance indicators.

And so I think where we could really get some success is companies striving to be transparent in telling a clear story of what is impacting the company, be it good or bad. I think it's going to be difficult from the demand's side, just because of how diverse users are.

MR. GRAZIANO: I would just agree with those comments. I think consistency is probably the number one thing that you look for. And it's kind of the easiest thing to look across companies, across disclosures.

Are companies consistently reporting certain attributes of their business? A good example is hedge accounting. Even if you qualify under hedge accounting, you'll find some companies where you can really tie out what they are hedging at what price, how many years. And then you turn to a company in the same industry and you really can't tell them what they're hedging, they just hedge. You know they hedge.

So that's kind of a major problem. And then the architecture, whether it's XBRL or some other consistent architecture to pull data and disclosure. And again, in a consistent format helps you compare companies and get the right information. And it forces companies to kind of put certain things in certain buckets.

MR. HARRINGTON: And the only thing I would just add, and I guess it goes without saying, but materiality. If a factor becomes so significant that it is making it difficult for investors to understand the performance of the group or a particular segment that they have an interest in, then it gets to the point where they need that additional piece of information to fully evaluate the performance of the company.

MS. ERHARDT: Tom?

MR. ROBINSON: I just want to follow up with an example of market forces driving better disclosures. In the U.S., we obviously have to disclose the Tier 1, Tier 2 and Tier 3 evaluation information in tabular format. And there is not a similar requirement under IFRS currently. But Fitch recently did a study looking at IFRS filers, primarily financial companies.

And found that the majority of those that they look at actually were providing the same tabular disclosure, even though it wasn't required. But the current market environment, the credit crunch I think, is driving that.

MS. ERHARDT: Okay. How about if we switch off the costs and go to the top line, the revenue. And I alluded to this earlier. And maybe Bob, we'll start with you this time. And then we'll work our way around, because the other half of the income statement is the credit switches, the revenue.

If you have any reactions -- I mentioned fair value working its way in, certainly if you have comments on that. But if you have broader comments in that area, why don't we kick off that part of the discussion.

MR. LAUX: Well, I can start on the fair value comment. And as you know, the FASB and the ISB have a project on their agenda for revenue recognition. And what they were originally looking at was two approaches.

One is a fair value approach of trying the fair value -- doing a fair value approach to your revenue recognition. And another was customer consideration. And actually, it was involved in a two-day, in-depth discussion, FASB and the AAA.

And we discussed it in detail, of the pro's and con's of both attributes. But when I came away from that, my reaction was the theoretically superior model was probably the fair value model, in my mind was a theoretically superior model.

The problem with it was as a business person, how practical was it? We -- in the fair value model, you have up front revenue recognition, because of your selling effort. And that may not be a problem. It's just that we're not used to up front revenue recognition.

And going on the way we have grown up and learned accounting, you don't think of it. I don't know if that was the problem. But what I had a concern with, even though I thought it was a superior model theoretically, was the ability to estimate these fair values.

And so for Microsoft we have what are called "enterprise agreements," where we give the software that you currently have. But you have a right to the next version of our software if we develop it. And so that would be like the next version of Windows.

And so I am sitting to myself saying, "I think fair value would be the theoretically better answer." But I didn't even have a clue, although I probably need to think about it more, of how to value that obligation we have. I just don't know to value that.

And I don't know how auditors would look at if that's verifiable. So I think when you get into these situations, you need to balance -- and this is a standard setter's job and a regulator's job and people who comment on them, but mostly the standard setter's job -- you need to balance what's the theoretically correct answer versus what you think will be the best for the users of financial statements.

And in this situation, I think the standard setter's have gotten right with the going down the customer consideration. That's just the beginning of that project. It could change. But I think that's probably the right answer from the practicalities of what's the best, useful information.

MS. ERHARDT: Do you have reaction to -- so those are good comments about potentially down the road. And I know the standard setters do have an important project to try to build/converge of a -- recognition standard.

Do you have any sense of, with all due respect to -- no doubt, they are going to get done -- but in the meantime, we work with U.S. GAAP as it is, and IFRS as it is. And I realize Microsoft isn't on IFRS.

But I don't know if you've found any chance to probe this topic in connection with the overseas subs or et cetera. Do you have any reactions now?

MR. LAUX: Yes, we do. We have a big project currently going on right now to try to ascertain if an option is offered, to adopt international accounting standards, if we'd want to avail ourselves of that. And so I know you are working on the road map, and they'll probably see that soon.

But we are doing the work right now to see if, and when we wanted to avail ourselves of that. So of course, the huge difference is the revenue recognition standard under international I believe, IS 18. Is it? And for software companies, SOP 97.2. And as you know, there are substantial differences.

SOP 97.2 has a lot of detailed rules. Some say there is a lot of anti-abuse provisions, maybe rightfully so, because of the way software companies were recording revenues years ago. But you couldn't really get a quite dramatically different result.

So we try to take what we call a "clean sheet" approach, and take a step back and think what is the best way to actually show the economics of the company, of what we believe the economics are and what the users of our financial statements believe our economics are.

The issue with IS 18 is it's mostly a general standard. So we'll have to get used to doing that. So it's going to be important to put controls within the company.

We can't put controls in at -- subsidiaries. Go look at this paragraph of 97.2. We've got to come up with controls of our own of how they should analyze decisions they are making in a software contract, and make sure that there is appropriate policies in place where they are asking us those questions.

And so it's quite a different atmosphere. But I think it's a good atmosphere in that it gives you the opportunity to try and portray your financial results based on what you believe the substance is. And that's just in the high-level kind of discussion of it.

MS. ERHARDT: Paul?

MR. MUNTER: Sure. Let me add to what I think, Bob was saying. I think we -- the software revenue recognition literature, as you know, is one of the many areas of U.S. GAAP where we have specific literature directed to particular industries. As contrasted with IFRS, that has as Bob indicated, a generally single, general standard to apply.

And I think as we have worked with our clients, both those outside of the U.S. who have gone on to IFRS, and those within the U.S. who are in situations like Bob's company, or looking at possibilities. We found situations in the technology sector where what I would label as the pure software players, often times have found that they can continue to use U.S. GAAP, 97.2 or something very close to that, because their business model has adapted, over the ten years or so, to accommodate the provisions in 97.2.

The ones who have found the potential, or in case of companies on IFRS now, actual substantial differences in those that have the potential for significant different are others in the technology space who find themselves being drawn into the scope of 97.2. So those that are more hardware networking, those kinds of companies that nonetheless, subject to the -- guidance get brought into the scope of 97.2.

And there the business models are not designed generally, in the same way. And when they are held to a VSOE standard of fair value to be able to separate their undelivered elements, they often times end up with sizable deferrals of revenue.

And there have even been articles recently in the press about some of these companies that have had substantial revenue deferrals. And when you get into IFRS and IS 18, this is essentially you want to look to the best evidence of fair value for the elements of the arrangement.

So you have a very different approach to trying to determine the separation process, and if you can separate, which generally you would, the ability to assign values to those undelivered elements. And so we have found that those kinds of technology companies very often times have a dramatically different portrayal of their revenue than they did previously under U.S. GAAP, or they would have had under U.S. GAAP.

MS. ERHARDT: Ron, I'll call on you. What's the investor's reaction, to the extent you are familiar, with the types of industries that Paul is referring to, or obviously, Bob's industry? To the fact that under IFRS you may get a different revenue pattern, but I've heard the word economics put in there.

Bob, it may more reflect, or at least how the business is run, versus maybe the tradeoff under U.S. GAAP. I've heard Paul say, "people have adapted their business to the accounting rules," which probably provides some more certainty to how it's being recognized.

But it's notable that businesses adapt in the reporting as opposed to reporting the business. Do you have a reaction on that, one way or the other?

MR. GRAZIANO: I think the most important point is there are certain models that are more superior, or make more sense in theory, but how do you apply them is the real question. And the other kind of theme here is principles make sense, a principle approach.

So if you are applying rules that are better for your users, better for your company, it just gives better information, I think ultimately, investors and all users will pay for that credibility, because you might have to earn it and kind of prove that over time that the information, as a company, that you are giving to the users is best. That earns credibility. And I think investors look for that.

And on the other hand, you might have other companies that apply standards that make them look better today. But then two years down the road, there is a large write off, or a large receipt, and that's going to be a hit against -- credibility.

So a principle approach allows you to make those choices, I think.

MS. ERHARDT: Other comments on the topic of revenue? If not, I've got more on my hit list here. Jeff? Sure.

MR. MAHONEY: Thanks, Julie. Their revenue recognition I think, is one of the areas that have been identified, with respect to IFRS, that many U.S. investors believe needs to be improved.

You are probably aware there was a memo prepared by some senior staff of the FASB, and of the ISB, on those areas that they believed were fundamental deficiencies of IFRS that required completion as a high priority. And they listed four areas, and they discussed those areas with us on ITAC, and with others in connection with developing that memo.

And one of those areas is revenue recognition. That's IS 18, and the memo described revenue recognition under IFRS standards as "incomplete, insufficient and internally inconsistent." And a second one was fair value measurement, where we have 157 now here in the U.S.

The memo described fair value measurement under IFRS as "critical to the adoption of IFRS," and that the IFRS definition of fair value, "lacks a consistent, robust definition." In addition, I think the ITAC members, and many U.S. investors believed that some of the, as the first panel mentioned and I think some on this panel, that the 157 disclosures are very useful, not all of which are currently required under IFRS, including Tier 1, Level 1, Level 2 and Level 3.

Particularly, disclosures surrounding the impact on reported earnings of the Level 3-related assets. Third is consolidation policy. It was concluded that the more comprehensive and consistent guidance when an entity controls another entity is necessary under IFRS. And fourth was de-recognition related to securitization accounting.

IS 39 is the standard there, and the memo described IS 39 as "internally inconsistent, and anecdotal evidence indicates that it's inconsistently applied in practice." Now to their credit all four of those projects are on the agenda of the ISB right now, with various completion dates, all except for the last one, as there -- a completion date specified, which goes out to -- some of the projects.

But given the acknowledged fundamental deficiencies that exist in these four areas under IFRS, I think many U.S. investors, including many on ITAC, believed that these four areas should be taken care of before we move to have a greater use of IFRS in the United States.

MS. ERHARDT: Maybe John or Leslie, if you have a reaction on those topics, because I know -- I think some of them are also on the FASB's agenda as well? So in other words, maybe it's like a joint effort to improve both sets of GAAP. But you guys are the experts. So John, you want to go first? And then Leslie will join you.

MR. SMITH: Yeah. I'll go through each of them. I think on revenue recognition there are some differences. We would clearly recognize that our standard is high-level, and we could fill in with a lot more. But we also understand in practice there is a lot of reference. And it's in our framework to look to other GAAP. And so there is guidance that companies can use, in terms of the U.S.

On fair value, and on consolidation policy and de-recognition, all of those areas are areas that we have had projects on for purposes of convergence primarily. And they've been on our agenda for awhile. As a result of the crisis, they have been highlighted again.

But on fair value, for example, with the panel that I'm working with, and I'm chairing those meetings, our guidance is not in the detail of the FASB. But what we say essentially, is we are looking for a clearing price in the market today, and we want the best evidence available to get there.

And then there is some guidance around that. In terms of the work product we're going to come out with, we are focusing on that principle as the guiding principle. So while we could improve this clearly, and we will, we think it works fairly well now.

De-recognition we talked about previously. The issue there is no one can agree on the substance. Did I borrow money? Or did I actually sell something? And as I said before, we would all disagree. We've used the example.

What the difficulty is with our standard, is we have some control when you can assess it. We have some risks and rewards if you've got them all. And then we have a backstop called "continuing involvement."

Our project, we are hoping, is to try to make the guidance better and clearer. But as to how we draw the line, it's clear to me that it will never ever be acceptable to the whole world, because there's just differences as to what the economics are.

And the issue of [consolidation policy. SIC 12, we believe, works fairly well. We could describe better the majority risk/majority benefits approach. And what we are looking at is not a fundamental change in that standard.

As a matter of fact, we are skipping a due process procedure. Typically, we come out with a discussion document ahead of our exposure draft. But we are really looking to clarify some guidance more than anything else, and so it's not the fundamental rethink of what we have.

MS. ERHARDT: Leslie, do you have anything to add to that working process from the FASB standard standpoint?

MS. SEIDMAN: Right. Let me just not repeat anything that John said, which I completely agree with. But just to hopefully be a little more specific for Jeff's request.

On the revenue recognition project, our plan is to issue in the next quarter or so, a discussion paper that lays out the proposed model, which as Bob Laux said, is a customer consider -- model that in my opinion, takes best of from U.S. GAAP and IFRS. So that's the first step in the due process.

And then focusing on the consolidation and de-recognition projects, we are starting from very different places in U.S. GAAP and IFRS, the philosophical divide that John described. But as you know in the U.S. we received a mandate from the SEC, and also the President's Working Group, to try and assess the status of our standards in the U.S. And provide enhancements as quickly as possible, to the extent that we thought they were necessary.

We have identified some enhancements that we'd like to make. And we are planning to propose those for comment shortly within the next month or so. However, our staff is working very closely with the staff of the ISB.

And our goal is to try and minimize any differences between the standards as we go. In other words, do not create new differences between the standards, but rather try and narrow the divide.

And then to the extent that we approach a point where we can have a consistent standard going forward, that is clearly our goal. Whether that takes place in one step or two steps is too soon for me to say. But it's our absolute goal to try and have converged standards in this area as soon as possible.

MS. ERHARDT: Thanks. Paul?

MR. MUNTER: I just want to make one point to one of the points John made about the application of the hierarchy on revenue recognition, and looking to US GAAP. And the conversation that I end up in a lot of times is where people want to wholesale import U.S. GAAP, and apply that as their IFRS revenue recognition approach.

And I guess what I would observe is that you could look to U.S. GAAP to the extent that it is not inconsistent with the principles of IFRS. So I think there are a lot of areas where a U.S. GAAP revenue recognition can be very helpful in applying IS 18.

For example, if we've got a multiple element arrangement, trying to sort through what are the deliverables, I find it's often times very helpful to think about what EITF 0021, paragraph 9(a) describes it as "whether something has stand along value to the customer." And I think that's very helpful in disciplining the process to identify deliverables.

Conversely however, the EITF 0021 also has a governor in it in paragraph 14, which is referred to as the "contingent revenues provisions" of that standard, which in my judgment, is inconsistent with the provisions of IS 18, because there is no similar type of governor in terms of how much can be allocated to the delivered element when the arrangement consideration is tied into subsequent undelivered elements.

So I think that U.S. GAAP can be helpful, but it has to be applied judiciously, as opposed to being imported in total when applying IS 18.

MR. LAUX: Paul, I just wanted to -- and you can correct me if I'm wrong, is that I think in the hierarchy as you said, is a -- with the concepts of -- the overall concepts of international accounting standards. But it actually say, "you may look at other accounting standards." It does not say you "have to look at other accounting standards."

So you can actually -- I'm just clarifying under the rules, you could ignore SOP 97.2 if you wanted to. I just wanted to --

MR. WHITE: Julie, I wanted to get just a couple of general questions in here. Maybe I'll start with you Tom. But if others have a thoughts on this -- John opened I guess, with the lineage of IFRS and the ISB, and at some point I think Charlotte said, "it was less mature than U.S. GAAP."

Or at least, those were her words. It certainly is a relatively new standard. And I guess the question is, is it high quality? Is it mature enough? Does it provide enough information for U.S. investors today?

I'm just kind of -- that whole kind of package of questions.

MR. ROBINSON: I think I'll start with the age question. Obviously, it is a relatively new set of standards. And it's not that mature.

And as a result, there isn't a lot of application guidance as there is under other accounting principle. And that results in some inconsistency of application. And I think the SEC saw that when they looked at 2006 IFRS filers in the U.S., and noted a great deal of inconsistency.

Bob sort of alluded to it, in that if you take something like IS 18, he needs to give guidance to his subsidiaries on how to apply that. And that guidance takes time to basically get codified and used in the system.

But what it results in the near term is that a lack of comparability. And the burden that is on the users to try and understand what the differences are, and make adjustments.

And users like Ron are very adept at doing that, but the average user is not. And so one implication of a relatively young set of accounting standards is it actually does -- even though it's a principles-based approach, it actually does increase complexity. It's more complex for the user to digest the information and make the necessary adjustments in order to use the information. Any comments?

MR. GRAZIANO: You're referring to IFRS, all of the standards, not just one?

MR. WHITE: Yes.

MR. GRAZIANO: Okay. I think one of the benefits though, is it has the advantage of looking back. So it was able to look at U.S. GAAP. It was able to look at other local GAAP standards. And maybe not repeat some of the issues, or deficiencies with some of those standards.

So I think even though it's younger, that is one of the benefits of IFRS. The others for example, would be pensions. The pension accounting under IFRS was very different from U.S. GAAP. And now the two are converging to what seems to make more economic sense.

The principles, I think, is another kind of area where IFRS is able to differentiate itself from other accounting standards. I'm not saying one is better or worse, but it's different compared to the strict rules where you must capitalize in this case. In terms of the problems or obstacles, yes, I do think we can make adjustments to get over some of the issues with IFRS.

But even investors like ourselves who stare at the data all day, and we compile all this stuff, it stops again, at two or three-year history. So the ability to have like a ten-year table for significant issues like pensions, leases, R & D, and to go back in time and look at what the effect would have been on the balance sheet and income statement would help a lot.

MS. ERHARDT: Sorry, go ahead Roger. You're the guest.

MR. HARRINGTON: I was just going to make one further comment on the maturity of IFRS. And I think I would agree that it takes time to settle. And it takes time to find the answers to some questions that are unclear from the standards.

I guess the benefit of converting now is that a lot of those questions have been aired through other conversion projects. And whereas -- as we went through the two years or so with a -- conversion in the UK, there were times when there were a lot of questions that were just unanswered.

Most of those have now been clarified by -- or a consensus view has emerged. So yes, you can see signs of immaturity in the standards. But they're getting there I think --

MR. WHITE: Let me ask one more, I guess I'll call it general question. As I said, this is our fourth roundtable on IFRS. And also, FASB had their session in June.

And at least I've heard, and I think most of us heard we'll say three themes that have come through quite strongly, or three messages. And I just want to make sure that everyone on this panel agreed with those three messages.

The first --

MS. ERHARDT: I think you're leading the witness John.

MR. WHITE: Well, I am leading the witness. That's what lawyers do. You've got mostly accountants up here. The goal is a single set of high-quality, globally accepted accounting standards that's the best for investors.

I guess that's the first thing we've heard. The second is that U.S. GAAP and IFRS meet that criteria. But the momentum seems to be towards IFRS.

And the third is that the transition will be challenging for the many participants. But that most of what -- the thing that people want most is a roadmap and a date, a firm date out there.

So I guess I'll say those are the three themes that I think we've heard consistently. Disagreement with those, or comment on those? So that's everybody on the yes --

MR. CRAIG: Thanks.

MR. WHITE: I knew I wouldn't be that lucky.

MR. CRAIG: Thanks for leading the witness. Now just to comment. We certainly agree with your comments. I mean, I think just in terms of transition challenging, we are not starting where the UK was in 2005. We are a little further along now here in 2008, than the challenges that they had to go and address back when they went through and implemented IFRS.

I mean, a lot of the really large challenges, business combinations, pensions, stock compensation, getting closer to convergence. And there are of course, a lot of issues. And when you sort through it, there are some differences.

But I think some of the more technically challenging areas are already in the process of being addressed. So I don't think it's as insurmountable as maybe it may have appeared if we tried to do it in 2005.

MR. WHITE: Jeff?

MR. MAHONEY: I don't necessarily disagree, but I'd like to comment on two and three of those four. I think -- as I mentioned earlier, I think there are some deficiencies, both in IFRS and U.S. GAAP.

And I mentioned four of the ones in IFRS earlier. And I think this major change that we're going to make is a great opportunity to fix those deficiencies as we move to a different set of accounting standards. On number three, I would like to agree with Mr. Robinson that I think there is a burden that is going to be shifted to U.S. investors through this change.

There are a large volume of very pervasive and significant differences between the two sets of standards that are going to have to be sorted out. And that will take some time.

And so I think, at least in the short term, some of that burden will be shifted to investors. My friend Jack Sazoski has done a great deal of work on these differences.

He has identified over two dozen of very significant and pervasive differences. Three of the most common areas are pensions and OPEB's share-based payments, share-based compensation and derivatives.

And he's pointed out that these differences are very significant in that many cases, but not all, they would result under higher earnings under IFRS standards rather than U.S. GAAP, by a median amount of 6.5 percent. He also pointed out there's a lot of legacy differences that are going to continue and make comparisons by U.S. investors very, very difficult.

These are differences that result from differences in the asset bases due to differences in the standards. And those differences are going to linger for quite a long time.

And U.S. investors are going to have to deal with those differences. They include business combinations, reevaluations of other long-term asset issues in process R & D and other intangible assets.

With respect to these legacy -- just looking at these legacy differences, Jack has concluded that in most cases, but not always because it does go in both directions, that IFRS earnings because of these legacy differences, will exceed U.S. GAAP earnings by about 4.3 percent. Beyond Jack's work, I'd also point to a study by Citigroup that indicated if U.S. companies were to be given the option of using IFRS rather than U.S. GAAP, that analysts of those companies would likely reach very different conclusions about the financial position of performance of those companies because of the glut of differences that exists between the two sets of standards.

Citigroup mentioned accounting for taxes, pensions, intangible assets and financial instruments as four of the significant areas. And they estimated that a U.S. company adopting IFRS would see an increase of about 23 percent of that income on average. So again, I'd just like to emphasize the point that there is going to be a burden shifting over to U.S. analysts, at least for some period of time.

And I would point out that's going to be compounded by the fact that like U.S. accountants, there's many U.S. analysts that are not very familiar right now with IFRS. And experts have estimated how long it's going to take to get people familiar with it.

Someone pointed out that some experts -- pointed out that it's going to take more than three years before we have the kind of educational materials and processes in place to retrain and reeducate not just investors, but accountants and others to use IFRS standards in the U.S.

COMMISSIONER WALTER: Thank you. Along those lines, can I come back to the point about the inconsistency in application that probably necessarily happens with relatively immature standards?

Do you have a semi-educated guess as to how long it takes to work that out? Can I buy into the notion that in 2008, we are in a better position than in 2005? How much longer will it take not to get to perfection, but to get closer to consistency?

MS. ERHARDT: Paul?

MR. ROBINSON: I am not sure in terms of -- I wouldn't -- on how long it will take. But I would say one thing that would certainly help things along is if regulators around the world put in place a system to ensure the uniform application of the standards as they exist.

And currently, that is not in place.

MS. ERHARDT: Paul?

MR. MUNTER: I want to pick up on John, your three points, and kind of on certain things Jeff said. I agree with what your premises that those are three of the key messages. And I'm in agreement with them.

I think that some of the things Jeff points out is exactly many, and I am one of those, think that we have to have a date certain to march towards to address education and training, to address system's issues, et cetera. But I think what that also speaks to is that it doesn't necessarily mean that you have to wait for convergence, because I think Jeff rightly points out, even if you get convergence on several of these projects with the boards you're working on, you still have differences.

-- see differences still exist. And I guess what I would also observe is the fact that there are differences doesn't necessarily speak to which body of literature is higher quality. I mean, I think there are differences that in some cases you could argue IFRS is higher quality, and in other cases argue U.S. GAAP is higher quality.

I think the real question is are IFRS a comprehensive body of literature, and a high quality body of literature? And I think in my own judgment, the answer to that is yes. I also think that there are some potential benefits from a less mature body of literature, in that it hasn't had the time to develop a lot of the existing practices and interpretations that in fact give you conflicting answers.

If we go back to the revenue recognition example for a moment, if we were to take a multimedia company that's let's say has motion pictures, broadcast, cable operations, perhaps is selling some of their motion pictures and X-Box games and therefore, has 97.2 applications. They could well have four or five different revenue recognition models, one for each of those industries.

Whereas in IFRS, you wouldn't necessarily have that, being the example of pensions and OPEB's. I think it's another example where IFRS has a single model for long-term, post-employment benefits. Whereas U.S. GAAP has a model for pensions, a model for post-retirement benefits that are pretty close, but not exactly the same, a model for post-employment different benefits, which is different, a model for compensated absences, which is different, three different models for termination benefits.

So I think one of the themes that we have present is because IFRS is a less mature body of literature, it hasn't developed the degree of application guidance that U.S. GAAP has, much of which is very beneficial of course. And it's been why U.S. GAAP is a very high quality body of literature and can be applied on a consistent basis.

But the standards themselves, we have to acknowledge there are errors within it that don't line up very well when you put one U.S. GAAP standard against another in a very similar area.

MS. ERHARDT: I just have a follow up question or two, quickly. One is for Tom. You talk about uniform application worldwide. I mean shoot, arguably, despite all the best efforts of the 3,000 people at the SEC, we don't have every U.S. issuer like a tin soldier in their filings.

And their costs of getting either 6,000 of us to ride herd a little closer, or standards that are twice as thick to provide for every eventuality. It seems like there's a cost there, and doubling the size of the standards, to get more prescriptive then what people would call "complexity."

So I mean, how do you -- it just seems like this is a classic tradeoff type question. I mean, do you have a suggestion? Or how do you see this uniformity thing going forward? Is it they're lined up like tin soldiers? Or is it just a little more meat on the bones of IFRS?

MR. ROBINSON: Well, I don't know the exact numbers, but I know -- I think John said earlier that there's 100 countries that permit or require IFRS standards, over 100. It's some permit, some don't require. And those that require IFRS often times don't require IFRS as adopted by the ISB.

And there's a lot of differences there. So if we could get at least that level of uniformity, where the regulators around the world agree that it is going to be one set of high-quality standards that we're going to follow, and not have every jurisdiction tweaking the standards, that just adds another degree of inconsistency within that set of standards.

And even though within the U.S. you are right, we may not have perfect consistency comparability among companies, at least they are following U.S. GAAP to some degree.

MS. ERHARDT: Yeah. I think that regulators -- I mean -- went on record in November saying, "if you are not doing IFRS issued by the ISB, you need to be darn clear about what your framework is." So I think we're singing out of same hymnal on that regard.

That I understand, the lining up in all the detail levels seems you know, a different discussion. One more thing --

MR. WHITE: Julie, you probably should head down the line here. I'm just looking at the time.

MS. ERHARDT: Okay. But I got one question, because I'm confused, and we're here to learn. So I want to learn, with all due respect to the closing comments.

And this relates to Jeff, the comments about the studies about comparing U.S. GAAP and IFRS results. I mean, needless to say, I've looked at some of that information myself.

I mean, I'm really struck by the comments about income in two respects. One is it seems like intellectually, one system can't perpetually forever be higher than the other. I mean, sometime it all comes back to the cash you collected.

Clearly, accounting isn't that powerful. So you might defer development costs under IFRS, which allows you to report higher income, but sooner or later -- which then in essence, allows more income. So I think those studies are instructive, but I always like to look at the time frames that they cover.

And the second thing is I don't know if there is any information about equity, about the balance sheet, because like for example, in IFRS pension actual loss is in the pension. I mean, IFRS says, "I'll tell you what, if you'll book that loss and put that obligation on your balance sheet immediately when it happens, sort of a -- you don't run the debit through P & L, you can charge it directly to equity."

But it gets the obligation on the balance sheet right away, whereas U.S. GAAP, although I know it's been amended now, is the other way around. Yes, you have got to put the debits in the income statement -- U.S. GAAP income is lower, but you don't put the obligation on the books until ultimately it's been -- over a number of years through income.

So it's like a tradeoff. You can say, "Well, U.S. GAAP income is lower than IFRS, but the IFRS balance sheet, the equities lower, because they've actually shown what the -- obligation is sooner. So I think those studies are important. But I am always curious.

And if you have access to more information, I'll be glad to have it. When they look at the full picture, the other part, the balance sheet as well, because I think some of the tradeoffs it's just pick your poison in the accounting model, versus one sort of perpetually leans one way or the other. So we don't have to do it now, but if there's other aspects to that, or if you'd send it along, I'd appreciate it. John?

MR. WHITE: Chris, you want to start with closing comments?

MR. CRAIG: Sure. I'll keep it brief. Just taking a step back, I think that -- IFRS really gives you an opportunity to take a fresh look at what you do. It introduces, to an extent, a significantly higher level of management -- and overall, I think when management has the opportunity to make those judgments, they have the opportunity to really make their financial statements theirs, and make it reflect the underlying substance of the transaction.

And to the other point, there is going to be disparity any time you introduce judgment. And not every company is exactly the same. And while comparability is one of the overriding goals of U.S. GAAP, and I think in the long-term IFRS will get there, I think need the benefits of taking a fresh look at your financial statements is tremendous.

MR. GRAZIANO: I can make my closing comments kind of on your question, on your points from before. I think it's a little bit dangerous to make the transition seem as bad as -- if you go to one global standard, whether that be IFRS or U.S. GAAP, there will be differences in income, differences in the balance sheet for the same company, same time period, just from changing accounting standards.

But this happened two years ago in Europe, and so we have a good data point to look at. Did the investment community -- did it affect them? And I would argue that it did not.

And there were massive changes. If you look at U.S. GAAP versus IFRS, there are some differences. But try to compare German GAAP to IFRS, or Italian GAAP to IFRS. And there is really large differences on the balance sheet and income statement that the investment had a great ability to look past and move more cash flows, as opposed to a change in earnings.

The other point is that the investment community right now is more vulnerable than it has ever been. So five years, even ten years ago, you had investors that invested in the U.S. They invested in Japan, or wherever they sat.

Now you have investors that invest across the world. So they are used to dealing with IFRS. They are used to the words of -- and it again, transition should be easier.

And then let's see -- I think that's it. The last comment would be one global standard, the benefits would outweigh the costs. And you have an easier flow of information. And it helps capital flow easier too.

MR. WHITE: Roger?

MR. HARRINGTON: I just -- first of all, I just wanted to recognize something we hadn't talked about, the removal of the requirement to reconcile to U.S. GAAP has lifted a significant burden to the FBI. So we very much appreciate that.

Also, to acknowledge, in terms of reserves reporting for the -- industries to make the proposals come out from the SEC on that, which we see is a positive move. My only other comment was really just to say I think it is a critical time now for IFRS, in terms of where it now goes in the future.

The -- of change coming down the track, and ensuring that what is changed now is for the better is absolutely key. And I do think that having a proper government's process, and proper state -- engagement, and getting that working at an absolutely optimal level will be fundamentally important to ensure that IFRS evolves in the right direction.

MR. WHITE: Bob?

MR. LAUX: I want to thank the commission for calling this roundtable. I have found it very informative, both sessions. In my opinion, I believe the international accounting standards are comprehensive and of a high quality. And being a non-financial institution, I think from my standpoint, they performed relatively well during the credit crisis.

The one thing I have been very impressed with is the speed that the ISB has acted. The Financial Stability Forum, I believe, put out the report in April of 2008, calling for a few things the ISB to do. And one of them was set up an expert advisory panel, which they did.

And they have already had four meetings, either the whole group, or subgroups. And standard setter time issued is that is like light speed. So I want to congratulate the ISB for really taking the issue seriously and working hard on it.

I made an observation, one that I touched on. And I had mentioned this a little bit before is just that we as preparers need to strive not to just rely on standard setters to tell us what to disclose. We really need to strive to be transparent and disclose what's the best useful information to the users.

Again, referring to the Financial Stability Forum, there were two suggestions in there that actually talked about preparers and investors, and auditors getting together and coming up with best practices of what disclosures would be. And not relying on a standard setter to tell them what to do, or doing the minimum. Also, I think there is a suggestion in there that these groups meet at least once every six months to talk about what's going on in the financial markets, and what should companies -- reporting off of risk factors.

So I think that's an important initiative. Finally, I just want to comment. It's important for us to talk about the credit crisis, that's a real issue, and what we need to do about it.

The one concern I have at times is it seems like, and this is a gross generalization, the financial accounting, reporting and disclosure arguments over the last decade, in my mind, seem to be dominated by financial instrument issues. And I think that's put a lot of complexity into our accounting, and the rules.

It's rightfully so when you have something like the credit crisis. But we have to remember to look at other things also. And I just want to commend the commission for the leadership that they've had, first with the CIFR committee.

It's items like key performance indicators, and trying to look at new ways of reporting information. Are -- proposal -- XBRL, having a concept, at least coming out soon on corporate web sites and how to use those and looking forward to the 21st Century disclosure initiative.

So while fair value, financial instruments and going to international accounting standards are very, very important, the most important is improving our disclosure system. And I think that the commission quite frankly, has taken a leadership role in there, and I thank the commission for that.

MR. MAHONEY: Thank you. I'd first like to point to a couple studies that the council has commissioned that are relevant to the topic of this roundtable, one of which I submitted to the SEC in connection with this roundtable -- but one is a paper prepared by Professor Ryan at New York University. That paper is related to fair value. The title of it is "Fair Value Accounting: Understanding the Issues raised by the Credit Crunch."

And the second one, which I forgot to submit, but I think I have submitted earlier to the SEC is a paper that was prepared by Professor Donna Street at University of Dayton, as one of the leading academics in this topic of international standards. And that paper is entitled, "International Convergence of Accounting Standards: What Investors Need to Know."

And both of those papers are available on our web site at www.cii.org. Getting back to the points you laid out earlier, I think there is -- first of all, investors -- I think they do have different views here.

I think there is very few U.S. investors that disagree with that the FASB should work cooperatively with the ISB as they have been for a number of years, toward a common goal of convergence to a single set of high quality standards as you mentioned. I don't think anyone, or very few people, could disagree with that.

I think the question is to when should we allow U.S. companies to adopt IFRS in the U.S. and under what conditions. I think that's where there is some disagreement in the investor community.

And let me just mention six issues that I think are important with respect to making that decision. One, I think it's the issue that's been talked about by some today as in the aggregate, do the international standards produce the same quality of information as U.S. GAAP?

I think that's an important question that needs to be continued to be explored. Application enforcement that some talked about -- would the application and enforcement of international standards in the U.S. be at least as rigorous and consistent as the existing application enforcement of U.S. GAAP. Third, does the international standard setter, if we are going to move to an international standard setter, have adequate, secure, stable source of funding that's not dependent on voluntary contributions from those who use those standards to prepare their financial statements, or those who audit those standards.

Does the international standard setter have a full time staff and board that's free of conflicts of interests and geographical biases? And most importantly, do they possess the technical expertise to fulfill this very important role for the capital markets?

Fifth, does the international standard setter, in the words of the SEC advisory committee on improvements to financial reporting -- will the international standard setter give preeminence to the views of the customers of financial reports in the standard setting process? And more specifically, in my view the standard setting process must have, as its focus, identifying and responding on a timely basis to the information needs of investors.

I think we really -- this is a great opportunity to refocus the system so that we actually focus on the customers of financial reports. I think that standard setters should also demonstrate their ongoing commitment to the customer's financial reports by having significant investor involvement in all aspects of the standard setting process.

That includes more than token representation on the

Standard Setting Board, on the staff, on the oversight board, the trustees, any monitoring group, advisory groups. I think we -- again, we need to reorient the system so that it has a much greater focus on the investor community.

And finally, the international standard setter must have a structure or process, and governmental support that adequately protects their decisions and judgments after they've gone through an extensive public due process that protects those judgments by being overridden by political processes, which as we know sometimes -- I'd say often is not aligned with the needs of the customers of financial reports.

In conclusion, I believe the SEC has an obligation to U.S. investors to thoroughly address these six areas and maybe more that I just described before we agreed to replace U.S. standards and the U.S. standard setter with the international standards in an international standard setter. Thank you.

MR. MUNTER: I think at the outset there are a couple of key questions. One is, do we think IFRS has a body of literature, high quality and comprehensive.

I think you've heard others say that the answer to that is yes. I think that it's our view as well. And I think following on that, the next question is can those standards be applied in the U.S.? What I would say to that is the answer is yes, they can. And in fact, they are.

There are the obvious circumstances where they are being applied now. John, you alluded to some of those in your opening remarks with U.S. companies that are subsidiaries of foreign parents that are on the IFRS.

More and more now, U.S. companies involved in foreign investment are getting IFRS information from their subsidiaries and other investees. We are beginning to see more and more circumstances where U.S. companies are seeking listing on places like the London -- market for example.

We are seeing more frequently circumstances where U.S. companies are acquired by private equity investors. Those private equity funds looking to be able to -- their investment whenever the markets move in a favorable manner, often times asking their companies to report dually to them on both U.S. GAAP and IFRS.

So I think there is a lot of evidence that IFRS can, and in fact are being applied within the U.S. marketplace. Now that's obviously a different fact than applying to 12,000 publicly traded companies in the U.S.

And so there is certainly a time period and a transition plan that will need to be put in place to move the broader marketplace to IFRS, which is why we think a date certain and a set of action plans and many other things Jeff points to I agree with, in terms of the structure of the board and the like.

Obviously, the potential for the monitoring being established with respect to the foundation and oversight of the board's activity, I think will be very helpful. And I think the other thing that Tom had mentioned before is as we march down this path, we also have to continue to remind ourselves that we are not functioning with standards that we are the owners of.

But we are dealing with a global set of standards, which then requires a much more collaborative process to move practice in a fashion that does in fact, aid investors and leads to greater comparability. And so farms like ours are working within our global network have to work collaboratively to develop our guidance.

And obviously, the commission working with its regulatory brethren has worked collaboratively as part of the process of moving the application of IFRS in a manner that results in comparative reporting.

MR. WHITE: Thank you. Tom, the last word.

MR. ROBINSON: And actually Jeff hit most of the items on my final point. So I'm going to be fairly brief in saying that I agree with him on his comments regarding the funding plan. And aligning the ISB with the needs of investors, we do think there needs to be greater investor representation on the ISB.

There is currently only one member, and I believe that's a -- member that represents the investors. I would like to make two additional points though. One is XBRL has been mentioned a couple of times on both of the panels.

There are significant differences in the taxonomy of XBRL under U.S. GAAP and IFRS. And that's going to need to be addressed as well in order to achieve convergence. So for example, cost of -- sold is in the U.S. GAAP -- taxonomy, but not in the IFRS framework.

The U.S. framework is much more detailed, it has industry reporting and SEC requirements. And I think that's something that should be considered.

The other thing is that related to the principles versus the rules, it's not an easy dichotomy. And in fact, we think the ISB should look at and factor into this due process, the entire process, which goes from promulgation, interpretation, implementation and enforcement.

It's an entire chain, and it just starts with the promulgation of the standards. And while they might start out as principles-based, you need to understand what can lead to ultimately ending up with a set of rules-based standards.

MR. WHITE: Okay. Well, I want to thank the panelists and the observers. You were terrific. This was very informative. I'll turn it over to you Chairman Cox, to close us off for today.

CLOSING REMARKS

CHAIRMAN COX: Thank you very much. Is this mic on? I hope so. In any case, I can shout to the back even if we were not.

I want to begin by thanking all of the second panel. You've done a great job. And of course John, you got to be on both of them. So thank you very much for doing that.

And Leslie also. You know, having Leslie and John here has been a particularly boon for us, because -- and I thank for all the panelists, because not only are you getting you getting your licks in vis-a-vis the SEC, but also vis-a-vis the standard setters.

And likewise, the standard setters have been able to provide a little -- for us. That's been very, very valuable. We have learned a great deal today. We learned from the fierce panel that in the financial services sector, IFRS worked well during the sub-prime crisis, at least as well or perhaps better than U.S. GAAP.

IFRS kept SPE's on the balance sheet to a far greater extent than U.S. GAAP, which made it possible to structure QSP's to keep them off the balance sheet. And we learned that fair value is presenting challenges for both sets of standards.

And that not only -- but improvement is needed in both standards in areas such as reductions in value of a country's own debt, which anonymously results more and more phantom income the more their business is doing worse. Those kinds of things obviously are good opportunities for us to work on improving both sets of standards.

We learned from the second panel just now that for example, revenue recognition issues are front burner and have particular importance. For the software industry, we learned that consistency of both standards, and presentation and financial statements is important to investors.

But where that is not possible, then there needs to enough disclosure so that investors can make comparisons themselves, such as for example, with LIFO and FIFO. We heard that the world's, and possibly America's move to IFRS offers an opportunity for a fresh look at financial reporting to improve existing shortcomings in both GAAP and IFRS.

And we learned from both panels a great deal of additional information as well, and that will all be part of the public record as a result of this very excellent roundtable today.

So let me close where I begin, with a word of thanks. But we say thanks also to Con and to Wayne for anchoring the first panel, and to Julie and to John for anchoring this second panel. You did a splendid job.

And I would be remiss if I were not to thank our SEC staff, who -- but whose work was absolutely essential to making the program this afternoon as successful as it has been. From the Office of the Chief Accountant, I'd like specifically to mention Lisa -- Rachael -- Blaine -- and Mark Walters from the Division of Corporation Finance, Stephanie -- and Cheryl Linthincomb.

And last, but not least, the -- women who handle our communications facilities, and the duties of the Office of the Secretary. A simple thank you for a job very well done. So with that I'd like to thank all who traveled long and far, some overseas.

I hope your travels home are safe. Thank you very much for the investment of time, energy and effort that you have made, and most important of all, for your expertise and for sharing that with us today. So at this time, our roundtable is adjourned.

(Whereupon, at 5:09 p.m., the roundtable was adjourned.)

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