



April 15, 2009

**Alcoa**

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

RE: File Number S7-27-08. Roadmap for the Potential Use of Financial Statements  
Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers

Dear Ms. Harmon:

Alcoa Inc. appreciates the opportunity to respond to the Commission's proposed Roadmap for the potential use of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined. We view this initiative as being an extremely important step towards the goal of a single set of globally accepted accounting standards, a goal which we believe to be of significant benefit to companies such as Alcoa. Alcoa operates in over 34 countries, over 40% of our operations (on a revenue basis) currently prepare IFRS-based financial statements and almost all of our competitors file public financial statements using IFRS. Accordingly, we believe there are many benefits for us and for the users of our financial statements in utilizing one common set of accounting standards throughout our operations as well as reporting our results in a manner that is most comparable with our competition.

We have attached as an appendix our responses to a number of specific questions asked by the Commission in the proposed Roadmap document. In addition to those responses, we would like to provide detailed comments on certain aspects of the Roadmap for the Commission's consideration.

#### Role of IFRS in Global Capital Markets

As mentioned above, the majority of our competitors in the metals and mining industry currently report under IFRS. Results of operations and statements of financial position can differ significantly between certain aspects of IFRS and US GAAP. Investors and other financial statement users would stand to benefit from eliminating this disparity and having all participants in an industry report more comparable results.

Events of the recent months certainly highlight the global nature of capital markets and the need for enhancing global regulatory processes in many areas. We believe the use of one single set of high quality accounting standards should be at the foundation of this effort. Investor protection will be enhanced by eliminating the ability to arbitrage

financial reporting over various jurisdictions. At Alcoa, we believe IFRS is well positioned to be those standards and the IASB as an organization is well positioned to develop and maintain those standards in a manner that is satisfactory to global capital markets and financial statement users throughout the world.

### Milestones

The Commission has established seven milestones toward the mandatory adoption of IFRS for US public companies in 2014. The first is the milestone relating to the improvements in accounting standards. While we agree with this milestone, we believe it needs to be more specific so as to focus the FASB/IASB priorities on exactly those standards that must be converged or improved in order to meet this milestone. We also believe the efforts of both the FASB and IASB should be focused on those identified standards (and minimize the issuance of other new standards) in order to achieve the milestone in the designated timeframe and form a stable platform of standards from which to make the conversion to IFRS.

The second milestone addresses the accountability and funding of the IASC Foundation. We believe the creation of the IASCF monitoring board and the ongoing improvements being made to the funding mechanism of the IASB are positive steps in this area.

We do not believe the third milestone on improving the ability to use interactive data for IFRS reporting is necessary prior to the transition to IFRS. While XBRL is and should be an important initiative of the SEC, we do not believe the move to a global set of accounting standards should be dependent upon their use in an XBRL environment. XBRL is a useful tool to enhance the comparability of data between companies but should not be a criterion for adoption of IFRS.

Alcoa believes the fourth milestone, education and training, while extremely important in the eventual successful adoption of IFRS in the US, will naturally come once a date certain is identified for the move to IFRS. We have been involved with local universities on IFRS education issues and we already see movements to incorporate IFRS into the curriculum. Those efforts will accelerate greatly once the uncertainty of the move to IFRS is removed. In addition, the success of rapidly developed and implemented training courses and university curriculum in other countries (e.g. the EU and Australia) once the move to IFRS was formalized would indicate this should not be an issue for concern in the US.

We would like to mention one observation we have related to the education milestone. We see, in most of the rest of the world, that formal education in US GAAP at the university level is almost nonexistent. Most of the accounting professionals that we hire at our non-US locations generally become familiar with US GAAP through "on the job" training at Alcoa. This is not an ideal situation and results in most of the US GAAP expertise in our company (and probably in other multinational companies like us) residing in a relatively small pool of individuals at our Corporate headquarters. The move to IFRS is an opportunity for companies like Alcoa to lift the overall professional

accounting talent level within the company to a much higher level once we all are equally trained in the same body of accounting knowledge. We also believe this will strengthen the overall control environment in our company as we will increase our ability to “get the accounting right” at the location level, where the best level of control resides.

The fifth milestone, limited early use of IFRS where this would enhance comparability for US investors, is a very important one. We believe early usage of IFRS by certain companies would be beneficial in a number of ways. First, as most companies who would choose to early adopt will have a significant number of their industry participants already reporting under IFRS, the comparability of financial data within the industry would be enhanced, which would be of benefit to the early adopting companies and the users of financial statements within that industry. The Commission would benefit as it would have the opportunity to further review IFRS based financial statements and understand the unique transition process from US GAAP to IFRS for US filers, prior to a much larger mandatory adoption at a later date. Finally, as foreign filers are already permitted to file their financial statements with the Commission using IFRS, it is only logical and appropriate that similar US companies should be permitted to do so.

With the above being said, we believe the early adoption milestone, as written, includes a number of features which are major deterrents to achieving that milestone. Unless these features are changed, we would expect few (or no) companies would elect to early adopt IFRS. These include:

- The lack of a date certain for mandatory adoption and the possibility of having to revert back to US GAAP should the commission decide at some later date to not mandate the use of IFRS. The possibility of having to revert back to US GAAP after completing a complicated conversion to IFRS is so onerous that this provision alone, in our opinion, will virtually eliminate the possibility of any company choosing to adopt IFRS early.
- The requirement to provide an ongoing reconciliation to US GAAP also significantly negates many of the benefits to be achieved by moving to one global set of standards. In addition, we believe this requirement will cause considerable confusion both within the company and with external users of a company’s financial statements as the disclosure of two sets of financial results will naturally generate an ongoing debate over which numbers are more appropriate.
- Another deterrent is the resolution of the use of the LIFO inventory accounting method in the US. We do not believe an item with such a significant cash impact to companies as LIFO should be eliminated (with the resulting huge tax increase) solely on the basis of a change in financial accounting principles. Due to the book/tax conformity rules in the US, this is what will occur if LIFO is disallowed for financial accounting purposes. We would encourage the Commission to work closely and expeditiously with the Department of Treasury to address an equitable solution to this issue prior to finalizing the Roadmap.

Without resolution of the above issues, we feel quite certain that few, if any, companies would choose to early adopt. However, should the deterrents mentioned above be removed, Alcoa would seriously consider the possibility of adopting IFRS early and has, in fact, begun efforts to study the impact of doing so.

The sixth and seventh milestones are linked, having to do with the timing of IFRS rulemaking by the Commission and the implementation of the mandatory use of IFRS by US issuers. Alcoa shares the view of many who believe the lack of a date certain for conversion to IFRS presents multiple problems for the ongoing movement to global accounting standards. Many of those issues are stated above in our other comments. We believe a 2014 date for mandatory conversion is feasible, provided a decision is made quickly by the Commission. Deferring the decision to 2011 will not allow sufficient time for many companies to do an orderly, controlled conversion to IFRS by 2014, particularly if the requirement to prepare 3 years of comparable data (as opposed to 2 years currently required by foreign issuers) is maintained.

#### Other Comments

We fully realize the many issues that the Commission has on its agenda. We would only reiterate our view that a move toward a common global set of accounting standards is consistent with the numerous global financial reforms that are needed. We would not view the move to IFRS as distracting other very necessary financial reform efforts. In fact, as stated above, we believe the move to a common set of accounting standards is an important enabler to those reforms, as was noted in the November 2008 G-20 Summit Declaration and reiterated at the April 2009 Summit.

As the last of our general comments, improvements in accounting standards and the continued convergence of key FASB/IASB standards is a very important milestone in the Commission's Roadmap. This is reflected in the considerable focus being given to this milestone in the debate on the Roadmap. The views and comments on this milestone, while they may appear similar, do vary significantly in some instances. To ensure that our position is clear, we would like to reiterate the following points:

- We would support a milestone which clearly identifies those standards which must be converged in order to achieve the desired improvements in accounting standards. (A target date should be set for that convergence such as the 2011 date outlined in the FASB/IASB MoU.)
- Once those standards are successfully converged (assuming this occurs in 2011 in accordance with the FASB/IASB MoU), IFRS should then be deemed acceptable as the one high quality global set of accounting standards and a date set for the mandatory conversion to IFRS in the US (be that 2014, 2015 or 2016).
- Also at that time, early adoption of IFRS should be permitted and firms that chose to do so could then adopt IFRS without the risk of having to revert back to US GAAP.

We do not support the view that this milestone will be effectively achieved solely through continued IASB/FASB convergence so that we can simply continue to use US GAAP in filings with the Commission while the rest of the world utilizes IFRS (in other words, the status quo, with convergence). Simply relying on continued convergence of standards falls well short of achieving the benefits which one global set of standards would bring. While well-intentioned, convergence efforts will never be able to deliver truly globally comparable financial data in the same manner as one complete set of global standards developed by one body. Second, the efficiencies to be achieved by preparers and users through a common set of standards will not be fully achieved through convergence only. Companies like Alcoa will have to continue to deal with statutory reporting requirements prepared under rules which may only be "similar" to those used to report consolidated results for the company as a whole. Different interpretations will develop between US GAAP and IFRS which will continue to drive a wedge between financial statements prepared under converged, as opposed to one set of standards. Lastly, it is extremely inefficient and ineffective from a global perspective to have two separate bodies working to develop two sets of standards that attempt to say the same thing.

We appreciate the opportunity to comment on the Roadmap. As mentioned, attached as an Appendix are responses to some of the specific questions asked by the Commission in the proposed Roadmap document. Our responses to some of the questions are included in our comments above and are not repeated in the Appendix.

Please feel free to contact us with any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Thene", written in a cursive style.

Tony Thene  
Vice President and Controller

## Appendix

### Questions 1 – 15

These questions are generally addressed in above comments.

One point that perhaps can be made with regard to question 14 and 15 has to do with the question posed in the Roadmap as to the positive and negative aspects of the less prescriptive guidance in IFRS as compared to US GAAP. We believe the guidance provided in IFRS, coupled with the significant additional disclosure required under IFRS to, among other things, explain the judgment used in the application of those standards, is very adequate and, in many cases, preferable to the rules-based guidance and interpretations that are prevalent in US GAAP. We further believe IFRS standards are better suited than US GAAP to reflect the underlying economics of many transactions. Lastly, our view is that common industry practice in accounting policies will quickly develop and be deployed, thereby enhancing comparability of financial statements within a given industry. (As an example, we frequently look to the financial statements of our competitors who currently use IFRS as we develop our own IFRS policies.)

We also believe the quality of financial statements under IFRS will be as good as, and perhaps better, than those under US GAAP. While “rules based” standards may be viewed by some as necessary to ensure all accounting principles are most appropriately applied, we believe “faithfully prepared” principles-based standards under IFRS, with appropriate disclosures, will do just as well in virtually all cases. As to potential abuses of interpretations in a principles-based environment, we would only point out that some of the major accounting scandals in recent history have been predicated on the abuse of bright line tests and strict rules in a “form over substance” approach to accounting designed to achieve a given result while still being in compliance with the rules. Some of these abuses led to the Commission’s study on principles-based accounting in 2003, which was mandated by Congress as part of the Sarbanes-Oxley Act of 2002. We believe that many of the observations and conclusions in that study are worth considering as part of the Commission’s deliberations on the Roadmap.

### *Questions 16 – 28 (qualification for early adoption)*

While we believe Alcoa would qualify for early adoption under the proposed guidelines in the Roadmap, we do not necessarily agree with those guidelines for general application over all US financial statement preparers. We believe it will be extremely difficult, if not impossible, to prescribe a specific criteria for companies that would qualify for early adoption. The use of SIC codes or other similar industry classifications will very likely result in some companies being inappropriately included or excluded from being considered for early adoption.

We believe the general criteria should be (1) the majority of the industry reporting under IFRS and (2) the presence of significant foreign operations in a company. The two are somewhat related and the case to apply for early adoption can be made by each company through the "no objection letter" process mentioned by the Commission in the Roadmap. We do not believe many companies will be applying for early adoption and feel it will be feasible for the Commission to deal with companies that would like to apply to do so on a case by case basis.

*Questions 29 – 33 (Transition)*

We do not believe there are considerations about filing IFRS financial statements that would weigh differently for an eligible US issuer than they would for a foreign private issuer that files IFRS financial statements.

With regard to the inclusion in indices such as the S&P 500 of issuers that report in IFRS (as opposed to US GAAP as currently required), we would view our removal from the S&P 500 upon our adoption of IFRS as a significant deterrent to moving to those standards. However, we believe once the Commission adopts a date certain for conversion to IFRS, that alone will facilitate the decision of such indices to include IFRS filers and, hopefully, avoid the issue.

On question 31, IFRS 1 is an extremely complicated standard due, among other things, to the various implication of mandatory and optional exemptions and the recasting of previously issued financial statements to reflect the use of IFRS retrospectively. As mentioned in our above comments, the significant effort to comply with IFRS 1, when considered along with the requirement to continue to reconcile to US GAAP and possibly to revert back to US GAAP, makes early adoption of IFRS under the proposed Roadmap undesirable for most companies. In addition, the requirement for a two-year comparative financial statements (as opposed to the one year requirement for foreign issuers) further complicates the transition as changes in accounting standards as of the ultimate reporting date will need to be applied back to year-end financial statements from three years ago (e.g. a 12/31/2012 adoption would require applying IFRS accounting policies in existence as of that date to the 12/31/2009 balance sheet). With the numerous changes coming over the next several years in accounting standards, the additional year of comparative financial statements becomes a significant burden on transition.

On question 33, Alcoa's preference would be, in the year prior to adoption, file a 10-K under US GAAP (with 3 years of US GAAP statements). In the year of adoption, in the 1<sup>st</sup> quarter 10-Q, then provide a current 1<sup>st</sup> quarter and the previous 2 full years in IFRS. This is, in our view, a "clean slate" approach and avoids the need for a 10-KA, which we feel has negative connotations with investors.

*Questions 34 – 45 Additional US GAAP Information*

These questions are generally addressed in the above comments.

Question 34

We strongly support Proposal A, which has been utilized by foreign issuers filing with the Commission under IFRS. As mentioned above, we believe the ongoing requirement to reconcile back to US GAAP will negate most of the benefits to be achieved by moving to IFRS. A clear and concise reconciliation of IFRS to US GAAP in the year of adoption as required by IFRS 1 will serve the need to educate investors as to the differences between the two accounting standards. The ongoing presentation of results under both standards, as previously mentioned, will likely cause considerable confusion among both internal and external financial statement users as to what the results of the company actually are, and will detract from the credibility of IFRS as the basis for the preparation of the core financial statements.

Question 50

We support the proposed Rule 13-02, under which an eligible IFRS issuer who applies IFRS as issued by the IASB would not be required to comply with the provisions of Regulation S-X. This will serve to centralize all financial presentation, disclosure and recognition and measurement requirements within IFRS, which would be beneficial to preparers.

Question 56

The safe harbors for forward-looking information should be extended to disclosures contained in a footnote to the financial statements in accordance with IFRS 7. This safe harbor should also be made available to foreign private issuers.

Question 57

We believe the best place for disclosure to investors that the issuer has changed its basis for financial reporting would be in Item 1 (Business) of the 10-K, perhaps under a new section Item 1d.

We also believe a Form 8-K should be required as soon as an issuer decides that it will begin filing IFRS financial statements in the future.

*Burden and Cost Estimates Related to the Proposed Amendments*

External Professional Costs

At Alcoa, we believe the estimate of over \$6 million per company (\$703 million / 110 companies) in external professional costs is too high, at least for us. We would not envision using outside advice to that extent, particularly as the familiarity with IFRS in the US becomes more commonplace.

Internal Costs

The estimate of about 48,000 hours of internal work per company (5.3 million hours / 110 companies) is more reasonable. We would plan on using about 4 full time persons for



two years in planning for and implementing IFRS adoption and roughly 8-12 persons on a part time basis for that same time period.

We would emphasize that not all of this work is incremental as we believe companies such as Alcoa with significant international operations should be focusing on IFRS implementations as they occur at the various non-US locations to ensure consistency of interpretation and to streamline the numerous statutory reporting processes within the company. In addition, the work being done by our US staff on IFRS also provides us with significant benefits. For example, we are better able to conduct financial due diligence on foreign acquisitions and divestitures, almost all of which nowadays require an understanding of IFRS based financial statements.

#### Systems

In our particular case, we do not envision significant systems costs in this effort, although we should clarify that our evaluation of required systems changes is at an early stage. We do believe a significant portion of our systems costs will relate to dual reporting during the transition period.