THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

20 April 2009

Our ref: ICAEW Rep 13/09

Your ref: File Number S7-27-08

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

By email: rule-comments@sec.gov

Dear Ms Harmon

ROADMAP FOR THE POTENTIAL USE OF IFRS

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the Securities and Exchange Commission's Roadmap for the application of International Financial Reporting Standards (IFRS) by U.S. issuers.

The Institute operates under a Royal Charter, working in the public interest, and provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance of leading professional accounting bodies, with over 750,000 members worldwide, and in December 2008 the Institute established a new Financial Reporting Faculty, dedicated to extending practical assistance to IFRS users both in the UK and internationally.

The Institute believes strongly in the benefits to investors and business of truly international standards, and has been a persistent champion of the creation of a single set of high quality global accounting standards and their application by publicly traded and other companies around the world. We made a significant contribution to the successful adoption of IFRS by UK listed companies in 2005, and our expertise in this area was reflected in the selection of the Institute by the European Commission (EC) to deliver a comprehensive study in 2007 covering all aspects of first time application of IFRS by European Union (EU) member states. In 2008 the Institute was also commissioned by the United Nations to prepare a follow-up report on the UK experience of IFRS implementation, which was presented in Geneva in October 2008. These reports and the extensive experience of our members in IFRS reporting have informed our responses to the questions posed in the SEC Roadmap.

Our assessment for the EC of the move to IFRS in 2005 was a favourable one. We reported an absence of any general loss of confidence in financial reporting and the general view of stakeholders that IFRS implementation had been a positive development for EU financial reporting, with an overall improvement in the quality of financial statements, improved comparability across borders and signs of improved capital market efficiency.

Our assessment remains broadly positive, and the reports of European regulators and anecdotal evidence - neither of which to date point to unforeseen problems with IFRS reporting or with the quality or consistency of enforcement - have done nothing to change this. In general IFRS has proved robust when stress-tested by the very difficult economic conditions experienced during recent months, and we have no hesitation in recommending to other jurisdictions that they join the worldwide community of IFRS reporters.

The SEC, and U.S. businesses, face major regulatory and economic challenges at this time, and questions will quite properly be asked about the merit of migrating to a new accounting framework in the foreseeable future. Whilst it is sensible to reflect anew on the undoubted challenges this poses, we strongly support the plans to allow early use of IFRS by major U.S. issuers. We urge the SEC to show leadership to the world at this time of economic uncertainty, to steer the United States firmly on a course towards mandatory application of IFRS, and to deploy its unrivalled expertise and experience in regulating financial markets in the cause of a single global accounting language. This is likely to mean some changes to the current proposals, as some aspects, such as the risk that U.S. IFRS reporters will at some point have to revert to U.S. GAAP, may deter most issuers from choosing to switch early on to IFRS. This is an historic, possibly unique, opportunity, and clear leadership at this juncture from the SEC is likely to transform the global financial reporting environment, bringing substantial long-term benefits to investors not only in the U.S., but around the world.

We are pleased to have been able to provide evidence and views to the SEC over a number of years, and are grateful for the contribution of SEC staff to our study for the European Commission in 2007. We would be delighted to offer further evidence to the Commission in its deliberations on the future of the Roadmap and the practical implications of IFRS transition.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Dr Nigel Sleigh-Johnson
Head of Financial Reporting Faculty
T +44 (0)20 7920 8793
F +44 (0)20 7638 6009
E nigel.sleigh-johnson@icaew.com

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 13/09

SEC ROADMAP ON THE USE OF IFRS BY US ISSUERS

Memorandum of comment submitted in April 2009 by The Institute of Chartered Accountants in England and Wales, in response to the SEC Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers, published in November 2008

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Chartered Accountants' Hall
PO Box 433 Moorgate Place London EC2P 2BJ
www.icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX DX 877 London/City

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on the consultation paper *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*, published by the SEC in November 2008.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance, with over 750,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued. Our members occupy a wide range of roles throughout the economy, and occupy senior positions in major corporations, both in the UK and internationally.

4. In December 2008, the Institute established a new Financial Reporting Faculty, dedicated to extending practical assistance to IFRS users both in the UK and internationally. The members of the Faculty Advisory Group include senior investors, regulators, standard setters, academics, auditors and preparers from the UK, the U.S. and elsewhere.

5. The Institute believes strongly in the benefits to investors and business of truly international standards, and has been a persistent champion of the creation of a single set of high quality global accounting standards and their application by publicly traded and other companies around the world. We made a significant contribution to the successful adoption of IFRS by UK listed companies in 2005, and our expertise in this area was reflected in the selection of the Institute by the European Commission (EC) to deliver a comprehensive study in 2007 covering all aspects of first time application of IFRS by European Union (EU) member states. The study incorporated the results of specially-commissioned academic research, reviews of 200 sets of IFRS consolidated financial statements, an on-line survey, and roundtables with stakeholders held in six EU jurisdictions. In 2008 the Institute was also commissioned by the United Nations (UN) to prepare a follow-up report on the UK experience of IFRS implementation, which was presented in Geneva in October 2008. The reports can be found respectively at www.icaew.com/ecifrsstudy; and www.icaew.com/index.cfm/route/161454.

6. This submission was developed by the Financial Reporting Committee of the Institute's Financial Reporting Faculty. The Committee includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms. Our responses to the questions posed in the SEC Roadmap were informed by our reports to the EC and the UN and the extensive experience of our members in IFRS reporting. We have in the main confined our responses to general implementation issues.

SUPPORT FOR THE SEC PROPOSAL
(Question 1)

7. We welcome and support the proposals in the Roadmap for the potential use by U.S. issuers of financial statements prepared in accordance with IFRS. We believe that U.S. issuers and investors would benefit from the development and use of a single set of globally accepted accounting standards. This will increase the efficiency and competitiveness of markets inside and outside the U.S. by enhancing transparency and comparability in financial reporting. Developing a single set of globally accepted accounting standards is now particularly relevant given the increasing use of IFRS by issuers in the global capital markets and the clear interdependencies of capital markets worldwide, as recognised at the recent G20 meeting in London.

8. Our strong support for the International Accounting Standards Board (IASB) and its standards is not offered lightly, or unconditionally, and is set firmly in the context of our view of the fundamental aims of standard setting: the development of accounting standards that are high quality and neutral, providing the foundation for transparent and comparable financial statements that improve investor confidence in the reliability and transparency of published information. To that end accounting standards should only be issued by a properly constituted and independent standard setter with an appropriate mandate and level of technical expertise, following transparent due process and making decisions solely in the public interest, and more specifically to protect the interests of investors. We note - and welcome - the support of the G20 for these principles.

9. It is against these fundamental criteria that we continue to assess the merits of the IASB and IFRS. Our study for the EC drew attention to certain shortcomings in IFRS, such as gaps in IFRS literature dealing with extractive industries and insurance accounting, and the challenges involved - for regulators, preparers and auditors - in migrating to a more principles-based accounting environment requiring the greater use of professional judgement. Our assessment of the move to IFRS was, nonetheless, a favourable one: we reported an absence of any general loss of confidence in financial reporting and the general view of stakeholders that IFRS implementation had been a positive development for EU financial reporting, with an overall improvement in the quality of financial statements, improved comparability across borders and signs of improved capital market efficiency.

10. The shortcomings and challenges identified in our study are, to some degree, still being addressed, and new challenges have arisen linked to the financial crisis. However, our assessment remains broadly positive, and anecdotal evidence and the recent reports of European regulators - neither of which to date point to unforeseen problems with IFRS reporting or with the quality or consistency of enforcement - have done nothing to change this. While some improvements have been necessary, these have tended to affect only a small minority of IFRS reporters, and in general IFRS has proved robust when stress-tested during the very difficult economic conditions experienced over recent months. In particular, it seems that serious concerns over whether financial institutions reporting under U.S. GAAP should have consolidated additional off balance sheet items, and the consequential impact on regulatory capital requirements, are not widely shared in relation to IFRS reporters

11. The *prima facie* case for moving to a single set of accounting standards has, in fact, been bolstered in our view by recent economic events, which have clearly illustrated the extent to which the world's capital markets are interlinked. Scrutiny of financial instruments accounting under U.S. GAAP and IFRS has highlighted the importance of comparability in corporate reporting by major organisations, and hence in the consistency of the underlying reporting requirements. Differences between standards - even relatively small differences in detail - have caused difficulty for regulators, investors and other users of reported financial information trying to understand global issues and to formulate an effective and internationally-coordinated response to the crisis. Recent pressure on both the IASB and FASB to eliminate such differences, sometimes without full due process, has tended to damage the credibility of the standard setting process.

12. Nonetheless, we recognise that at a time when the SEC, and U.S. businesses, face many major regulatory and economic challenges, questions will quite properly be asked about the merit of migrating to a new accounting framework in the foreseeable future. Whilst it is sensible to reflect anew on the undoubted challenges this poses, we encourage the SEC to show leadership to the world at this time of economic uncertainty, and to steer the United States firmly on a course towards international accounting, deploying its unrivalled expertise and experience in the cause of a single global accounting language. This is an historic, possibly unique, opportunity, and we are convinced that clear and decisive leadership from the Commission at this juncture is likely to bring substantial long-term benefits to investors not only in the U.S., but around the world, especially in the several jurisdictions awaiting a clear signal on U.S. intentions before making a final decision about switching to IFRS reporting.

MILESTONES
(Question 2)

13. Our comments on the individual milestones referred to in the Roadmap are set out below. However, we point out more generally that this approach to decision-making may lead to a degree of uncertainty that discourages wide voluntary adoption of IFRS. The final decision to be taken in 2011 depends on a wide variety of factors, without any clear criteria for evaluating progress. Companies that might wish to use IFRS early will be deterred if there is a significant risk of having to revert back to U.S. GAAP, and companies, investors, and other stakeholders will need to contend with the costs and distractions associated with the operation of two accounting frameworks over an extended period. We thus encourage the SEC to take its final decision at the earliest possible date, and in the meantime to establish the minimum number of milestones and clear criteria for assessing whether those milestones have been reached.

Improvements in accounting standards

14. We favour the development of accounting standards that are regularly reviewed and promptly amended as necessary, subject to the strict observance of due process. However, as discussed below in the context of convergence, there is a tension between the desire to improve accounting standards and the need for a stable platform of standards over the transition period. Multiple changes in standards over the relevant period, whether in U.S. GAAP or IFRS, would inevitably make the process more complicated.

15. During the EU transition, the IASB continued to work on new and improved standards, but delayed mandatory implementation dates until after the period of

transition. Similarly, national standard setters during this period tended only to change their standards to the minimum extent possible. These actions contributed substantially to the successful implementation of IFRS in the EU.

The accountability and funding of the IASC Foundation

16. We endorse the view that the funding mechanism of the IASC Foundation (IASCF) should be stable, broadly-based and robust. We welcome the progress made to date in establishing such funding arrangements - including the recent announcement of funding by the European Commission - which are a prerequisite for independent and accountable standard setting.

17. We support the establishment of a connection between the IASCF and the new Monitoring Board, including SEC representation. This represents a major improvement in the public accountability of the IASB and should reinforce its technical independence. We also note that the IASCF trustees are continuing to consult on improving the constitutional arrangements of the organisation, including due process aspects, and we welcome the significant progress towards ensuring that the IASCF constitution and IASB due process are seen as embodying best practice in global standard setting.

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The improvement in the ability to use interactive data for IFRS reporting

18. We have no comments on this milestone; we appreciate that the SEC considers this to be an important factor in the debate over US moves to IFRS. We would just observe that many countries have successfully implemented IFRS without any availability of interactive data and in a general sense we doubt that the benefits of a jurisdiction moving to IFRS would be undermined significantly if improved interactive data lagged behind.

Education and training relating to IFRS

19. We agree that the potential benefits of use of a single set of high-quality globally-accepted accounting standards can only be realised fully if all users and preparers understand the reported results without undue difficulty. This is particularly important when the first sets of IFRS financial statements are prepared. Early education and training will be vital in assisting all stakeholders to appreciate the impact of IFRS on reported financial performance and net assets, and the economic implications - if any - of the technical accounting changes. Those switching to IFRS will need to disseminate knowledge of the standards widely within their organisations and develop ongoing communication programmes to assist investors and other users.

20. We note above, moreover, that it is widely accepted that the commitment of the IASB to principles-based standards means that IFRS accounting literature contains fewer rules and less detailed guidance than U.S. GAAP, requiring the exercise of a greater degree of professional judgement by preparers and auditors of financial statements. This too, may require major changes both in education and training and in the approach adopted by regulatory bodies, and it might be helpful if the Roadmap addressed these issues more directly.

21. All of this is a substantial challenge, but one that should not be over-estimated. Generally speaking, our study showed that the EU coped with it well, despite the critical shortage of IFRS experience and expertise in the run-up to 2005 and the lack of familiarity in most EU jurisdictions with principles-based standards. We

have no reason to doubt that the U.S. will cope equally well, or better, especially given access to the experience since 2005 of EU and other IFRS reporters and the wealth of expertise built up within the larger accountancy firms since 2005. The U.S. is, moreover, far better placed than many jurisdictions in Europe and elsewhere to make the transition, given the similarity to U.S. GAAP of some of the most demanding IFRS standards and the familiarity of the vocabulary and language of the standards. This Institute stands ready to assist the SEC in this endeavour.

Limited early use of IFRS where this would enhance comparability for U.S. investors

22. We agree that limited early use of IFRS could have a vital part to play in the transition, particularly as early U.S. experience of IFRS reporting should benefit issuers with fewer resources in the lead-up to mandatory application.

23. As discussed above, companies that might wish to use IFRS early may well be deterred if there is a significant risk of having to revert back to U.S. GAAP, and companies, investors, and other stakeholders will need to contend with the costs and distractions associated with the operation of two accounting frameworks over an extended period. The number of issuers taking up the opportunity to apply IFRS early may therefore prove to be quite small. The Commission thus needs, in the interest of investors, to give a clear signal of its intentions as soon as practically possible.

The anticipated timing of future rulemaking by the Commission

24. This is of course an issue for the SEC to determine. In the end, a firm deadline is the only way to persuade companies to devote sufficient resources to the task; we found that a number of UK companies migrating to IFRS in 2005 could not be persuaded to start planning and preparatory work early enough, despite exhortations. However, as discussed below, in our view the final rulemaking in 2011 for adoption by 2014 may prove too short to allow for an orderly conversion to IFRS.

The implementation of the mandatory use of IFRS by US issuers

25. We explain below that there are important benefits to be gained from simultaneous transition by a substantial body of issuers.

26. In the meantime, convergence between IFRS and U.S. GAAP remains a key goal, regardless of decisions on the Roadmap. As we note above, the *prima facie* case for moving to a single set of accounting standards has, in our view, been bolstered by recent economic events. If, moreover, the U.S. adopts IFRS, further convergence will ease the transition to IFRS. Nonetheless, we suggest an early reappraisal of the convergence agenda, given the need to avoid the cost and uncertainty associated with frequent changes to standards. In general, we prefer an approach to major change in financial reporting requirements that is evolutionary, structured, well-understood and manageable for preparers and users.

TRANSITION PROCESS
(Questions 3 and 4)

27. There is, naturally, a balance to be struck between establishing a firm-enough target for IFRS transition and allowing sufficient time for a well-run company to complete the substantial preparatory work required. Many EU issuers - especially in jurisdictions where differences between existing national requirements and IFRS were most acute - found the short time available between the promulgation of the IAS Regulation in 2002 and the publication of the first financial statements in 2005 to be very challenging.

28. Overall, we favour a simultaneous transition rather than a staged one, at least for major corporations, since the market is better able to deal with a single, well-understood change rather than a complex and protracted process of change. The EU experience of simultaneous transition for the major regulated exchanges was generally judged to be successful. It provided certainty, well-understood deadlines, and a clear focus and sense of purpose, enabling all participants in the process to share concerns and possible solutions. It may also have facilitated a more efficient and cost-effective approach to IFRS training and learning for companies, auditors and users in the period of transition.

29. We recognise, nonetheless, that there are important benefits to some element of phasing. When the junior UK market, the Alternative Investment Market (AIM), moved to IFRS in 2007, the process appears to have been completed remarkably smoothly, with reporting deadlines met, despite the fact that AIM companies are generally smaller than the companies listed on the Main Market, with fewer resources available. Whilst many are thought to have found the challenge of IFRS implementation daunting, AIM companies did enjoy some advantages over the first wave of UK IFRS adopters. Firstly, the transactions entered into by many AIM companies are relatively straightforward; in particular, they are likely to have needed to account for fewer complex financial instruments. But secondly, they were helped by the greater familiarity of the whole financial reporting community with IFRS concepts and vocabulary, and in particular with the greater familiarity of the auditors, gained since 2005. Thus their advisors were able to anticipate problem areas. If there are concerns over how smaller listed companies would cope with mandatory IFRS adoption, the SEC might, similarly, mandate IFRS initially for just the largest companies.

30. Discussions undertaken as part of our study for the EC found that cost was not generally regarded by management as a major cause of concern. The benefits of the move to international standards were well understood, by management as well as investors, and the costs involved did not appear to be regarded as disproportionate. We noted that the one-off cost of transition was proportionately higher for smaller listed companies - estimated as 0.31% of turnover - than for larger listed companies (0.05% of turnover). Few companies appeared to have segregated these costs however, and our evidence was thus not definitive in this regard. Similarly, we suggest that estimates in the U.S. of the likely costs of transition are treated with caution.

REGULATED ENTITIES
(Question 6)

31. We do not believe it is appropriate to exclude all regulated entities filing or furnishing reports with the SEC from the scope of the Roadmap. This would result in a different sets of financial reporting standards for certain types of entity, leading to further requirements for reconciliation in order to achieve comparability with IFRS reporters. The EU experience was to include all listed issuers within the scope of the Regulation, although we acknowledge that there may be a case

for initially excluding investment companies, given that the current U.S. GAAP reporting regime for these companies is tailored to their activities. In our view the issue of how to deal with reporting for investment companies and other regulated entities is for the SEC and other regulators to resolve in such a way that, overall, IFRS implementation is not unduly delayed and as far as possible dual GAAP reporting is avoided.

AUDIT FIRMS
(Question 8)

32. We have no specific evidence that the advent of IFRS had an impact on the availability of audit services in the EU. While regulators in the U.S. and the EU are looking at the question of choice in the audit market, technical expertise and capabilities and the ability and willingness to invest in them are generic competitive issues and not, in our view, directly related to IFRS. The advent of IFRS may, in fact, enhance competitiveness in the sense that it levels the playing field internationally, and is very likely to enhance audit quality as international networks of firms and others converge on IFRS to an even greater extent than at present.

IMPACT ON U.S. INVESTORS
COMPREHENSIVENESS AND PRINCIPLES BASED STANDARDS
(Questions 10, 14, 15)

33. In our experience, investors in EU companies have in general found the move to one set of standards highly beneficial, aiding comparability and easing the process of deriving data from financial statements for modelling purposes. This positive impact of IFRS has, in our view, been enhanced by the principles-based nature of IFRS and the lack of detailed ancillary accounting literature. We support the IASB's general approach to standard setting, which seeks to use clear principles underpinned by the minimum application guidance needed to illustrate how those principles are likely to be applied in common situations. This approach allows companies and auditors to respond appropriately to complex transactions and new developments in business and accounting practice, identifying the accounting solution that best addresses the substance of the transaction rather than focusing on compliance issues. It is more likely to lead to high quality and transparent reporting than extensive rules designed to address all eventualities that arise in practice, which tend to foster a preoccupation with identification of and compliance with the detailed requirements, rather than with effective communication with investors.

34. It will be important to consider what steps the SEC, other U.S. regulators and other bodies should undertake to assist U.S. market participants to adjust to this new environment through an ambitious outreach programme and coordinated educational initiatives, focusing on the key accounting differences - likely to fall substantially by 2011 given the current convergence agenda - and on understanding and adapting to the scope for variation in judgement by companies applying principles-based standards to fact patterns that may appear very similar.

READINESS TO TRANSITION
(Question 13)

35. Readiness to transition is of course the responsibility of the reporting entities, although much depends on the establishment of a clear and reasonable legal timetable. For financial institutions in particular, the SEC needs to consider the

volume of systems changes, training and communication that may be necessary to implement the new standards successfully. Just as importantly, we have highlighted above that issuers require certainty, perhaps above all else, and the SEC should set a timetable for transition that is not overly ambitious but is as far as possible clear, fixed and certain.

RECONCILIATION TO IFRS
(Question 34)

36. From the two options presented we favour the one-time reconciliation requirement under IFRS 1 in Proposal A. Proposal B sends out a message that the SEC could revert to U.S. GAAP in the future and could be interpreted as a lack of commitment to the Roadmap. While we agree that reconciliations should be provided, we are concerned that the extensive and costly disclosure requirements set out in proposal B may discourage U.S. issuers from moving towards IFRS and serve only to confuse investors and management alike.

37. We also point out that, once a company has converted, the previous GAAP is irrelevant to how the business is managed (eg, why require dual GAAP hedge documentation?) and detracts from preparers and users getting to grips with the IFRS results, particularly where there are minor technical differences in otherwise converged standards, such as IFRS 2. It seems to us that there are considerable practical difficulties with requiring U.S. GAAP reconciliations for IFRS preparers for an ongoing period of time, without any clear benefits.

Email: nigel.sleigh-johnson@icaew.com