Securities Industry and Financial Markets Association

April 28, 2009

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

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

Dear Ms. Murphy:

The Dealer Accounting Committee of the Securities Industry and Financial Markets Association[1] appreciates the opportunity to comment on the above mentioned release. We fully support the overall objective of convergence of global accounting standards. We believe that U.S. investors, U.S. issuers, and U.S. markets would benefit from the comparability of financial information that would result from the adoption of a single set of globally accepted, high-quality accounting standards.

We also agree that the milestones and considerations described in Section III.A. of the release ("Milestones to be Achieved Leading to the Use of IFRS by U.S. Issuers") comprise an appropriate framework for evaluating whether U.S. issuers should be required to prepare their financial statements in accordance with IFRS. In particular, we would like to highlight the importance of the first two milestones: "Improvements in Accounting Standards" and "Accountability and Funding of the IASC Foundation." Furthermore, the accounting platform is not yet stable and would require companies to maintain dual sets of books and records for an extended period of time. Therefore, commencing the transition to IFRS now would not be cost beneficial. As a result, we do not believe that the Commission should set forth a definite timetable for the adoption of IFRS by U.S. issuers until the milestones outlined in the release are met to the satisfaction of the Commission.

[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 600 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

Improvements in Accounting Standards

From our perspective, improvements and convergence efforts in the following areas should be prioritized with the goal of issuing identical standards:

Fair value measurement – As part of the Memorandum of Understanding between the IASB and the FASB which sets out a Roadmap of Convergence between IFRS and US GAAP (the MoU), the IASB is currently developing an exposure draft on fair value measurement guidance. On December 30, 2008, the SEC issued a report entitled, "Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark to Market Accounting" which supported the principles of fair value accounting while acknowledging that there is room for improvement in the overall guidance.

Consolidation – While this area is also part of the MoU, market events have caused the IASB and FASB to accelerate progress. Unfortunately, this has minimized the emphasis on true convergence. Many do believe that the independent models under development will likely result in similar conclusions. Nevertheless, we are concerned that divergent texts can lead to unintended differences in application.

Derecognition – As part of the MoU, the IASB and the FASB are currently coordinating efforts on this issue. Theoretically, this area is closely related to the consolidation issue although market events have caused them to be separated. We support efforts towards the development of a comprehensive, converged approach to derecognition and consolidation.

Derivative netting – In the context of the financial services industry, companies manage derivative positions on a risk basis and not a cash flow basis. Therefore, we believe the derivatives netting model prescribed by US GAAP in FIN 39 and FIN 41, taken together with the disclosures imposed by SFAS 161, is more reflective of the underlying economics and provides more appropriate information to investors than the gross presentation model prescribed by IFRS 39.

Specialized industry accounting – IFRS does not allow for specialized industry accounting. As currently prescribed by IFRS, investment companies are required to consolidate controlled entities even when the investments are held solely for investment purposes. We do not believe that a full consolidated presentation of the aggregated assets, liabilities and results of operations of a potentially diverse and large group of subsidiaries provides investors in such funds with meaningful and useful financial information.

While the latter two of these issues are not included in the MoU, we believe these matters should be addressed before the Commission requires U.S. issuers to adopt IFRS.

Accountability and Funding of the IASC Foundation

We support the amendments to the constitution of the International Accounting Standards Board (IASB) that were announced on January 29, 2009. Particularly, we note the establishment of the Monitoring Board, comprised of global regulators, and the changes in size and additional geographic diversity criteria established for the IASB. We believe that this initiative is an important step in the right direction.

On October 13, 2008, the IASB issued an amendment permitting the reclassification of financial instruments in certain instances. In connection with this amendment, Sir David Tweedie, the Chairman of the IASB, stated that:

> "In addressing the rare circumstances of the current credit crisis, the IASB is committed to taking urgent action to ensure that transparency and confidence are restored to financial markets. The IASB has acted quickly to address the *concerns raised by EU leaders* and others regarding the issue of reclassification. Our response is consistent with the *request made by European leaders and finance ministers*; it is important that these amendments are permitted for use rapidly and without modification" (*emphasis added*.)

The normal due process procedures of the IASB were not followed in issuing this amendment which was issued, primarily, to address concerns raised by EU leaders. IFRS can only be reliable as a high-quality set of accounting standards if the standard setting process is entirely independent of any political processes.

Furthermore, as outlined in the "Memorandum of Understanding to Strengthen the Institutional Framework of the International Accounting Standards Committee Foundation," the Monitoring Board is responsible to provide oversight as to the "adequacy and appropriateness of the sources of funding and any other revenue arrangements of the IASCF." Establishing a truly independent source of funding is an essential component of the governance structure and is necessary to ensure the Board's independence.

Consequently, we believe that the SEC should carefully monitor the effectiveness of the Monitoring Board along with the evolving financial arrangements that will support the activities of the IASB, as a condition precedent to requiring U.S. issuers to file financial statements in accordance with IFRS.

The accounting platform is not yet stable and would require companies to maintain dual sets of books and records for an extended period of time. Therefore, commencing the transition to IFRS now would not be cost beneficial.

As currently proposed, a migration to IFRS will require entities to maintain books and records in both U.S. GAAP and IFRS for at least three years. This parallel booking requirement is costly in and of itself. Since IFRS and US GAAP are evolving, this will be compounded because companies will be tracking changes to two sets of rules, and, such changes may not be the identical. Furthermore, as IFRS evolves during the three year transitional period, the new rules will need to be applied retrospectively to the beginning of the transition period; requiring entities to adjust previously recorded amounts. Given the scope of the MoU, we expect the changes to be significant. This all adds up to an accounting platform that is not stable. This lack of stability will necessitate that firms devote significant incremental resources and costs in their accounting function to record transactions while maintaining appropriate internal controls, all at a time of marketplace uncertainty.

While we can never expect the platform to be stable for any three year period, we note that there was a quiet period in connection with the EU adoption in 2005. Additionally, the IASB and FASB have prioritized the key required areas for standard setting and we anticipate that after the convergence goals are met, the new projects may be less urgent and time sensitive; thereby allowing for required adoption dates after the transition period is completed. We acknowledge that establishing a "quiet period" will be difficult, we would encourage that we endeavor to strike the right balance by optimizing major projects in advance to facilitate a smoother and more cost-effective adoption of IFRS by U.S. issuers.

When companies based in the EU adopted IFRS in 2005, only two years of comparative financial statements were required. We believe that this relief should be extended to U.S. issuers since it will substantially decrease the burden and require a shorter "quiet period."

It is also important to note that, as currently proposed, many companies converting to IFRS will still be required to maintain US GAAP information. Brokers and dealers are excluded from the scope of the release. Consequently, financial companies with significant broker dealer subsidiaries will be required to maintain US GAAP information for these subsidiaries. Additionally, other industry regulators and government agencies (for instance the Federal Reserve and the IRS) also have substantial US GAAP requirements. To be acceptable as a global accounting standard, IFRS should be acceptable for purposes of broker dealer reporting as well as for regulatory and tax purposes.

Finally, the following are additional reasons that we do not believe that the option for early adoption is attractive:

- Proposal B described in Section IV.D.2. of the release would require U.S. issuers that elect to early adopt IFRS to disclose certain unaudited supplemental financial information covering a three year period (on an ongoing basis throughout the transition period) in addition to the reconciling information required by IFRS 1. If Proposal A described in Section IV.D.1. of the release is adopted, this concern would be mitigated.
- The potential requirement to revert to US GAAP if the Commission does not support the migration of all U.S. issuers to IFRS.

Conclusion

We hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact me (212-357-8437), or the Committee’s Staff Advisors, Kyle Brandon (212-313-1280) or Jerry Quinn (212-313-1207).

Sincerely,

Matthew L. Schroeder
Chairman
Dealer Accounting Committee