Investors Technical Advisory Committee
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Via Email

January 30, 2009

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

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

Dear Ms. Harmon,

I am writing on behalf of the Investors Technical Advisory Committee ("ITAC"). The purpose of the ITAC is to provide independent technical advice, from the investors' perspective, to the Financial Accounting Standards Board ("FASB") and its staff. The ITAC comprises individuals from the investment profession possessing strong technical accounting knowledge.[1]

The ITAC appreciates the opportunity to express its views on the Commission's proposed *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards (IFRS) by US Issuers.* ITAC supports the use by all companies of highly transparent, timely and comparable reporting. We believe that is best achieved through the FASB and International Accounting Standards Board ("IASB") working together to develop a single set of such standards. It should be done using a gradual and thoughtful approach, while avoiding a rush to the lowest common denominator brought on by the undue influence of special interests - including governments. Until a single set of standards that produce such a result exists, with a demonstrated record of compliance and enforcement, we believe it is premature and unwise to move away from U.S. Generally Accepted Accounting Principles (GAAP).

Overview

Consistent with the views expressed in our August 31, 2007 letter to the Commission[2] on its proposal to eliminate the U.S. GAAP reconciliation for foreign private issuers, we continue to support the goal of convergence to a single set of high-quality financial reporting standards. We believe now, as we did then, that all investors would greatly benefit from having just one high-quality financial reporting language. We also believe that the creation of a single high-quality financial reporting framework will best result from an evolutionary process, rather than from a somewhat abrupt changeover from one set of standards to another.

[1]This letter represents the views of the Investors Technical Advisory Committee ("ITAC") and does not necessarily represent the views of its individual members, or the organizations in which they are employed, or the views of the Financial Accounting Standards Board or its staff. For more information about the ITAC, including a list of current members and the organizations in which they are employed, see
http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml.

[2]See ITAC letter dated August 31, 2007, in reference to File Number S7-13-07, "Proposed Rule: Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP" at http://sec.gov/comments/s7-13-07/s71307-16.pdf

We are encouraged that the Commission has established an interim step in 2011 to evaluate whether the use of IFRS by U.S. issuers is "in the public interest and for the protection of investors to do so." Investors would be meaningfully affected by any such decision and we appreciate the Commission's commitment to make its decision in such a fashion.

However, we have serious doubts as to whether the proposed roadmap, as currently envisioned, will tangibly benefit investors' interests. While we agree that "investor understanding would be enhanced if the world's major capital markets all operated under a single set of high-quality accounting standards that elicit comparable, high-quality financial information from public companies," the proposal amounts to an abandonment of U.S. GAAP rather than a convergence of the two bodies of accounting literature into "best of breed" standards. In our view, the proposal fails to provide sufficient support as to why it presents a better course of action than the current on-going convergence efforts between the FASB and the IASB. Those efforts, begun in 2002, have intensified in recent years and have recently started to produce high-quality jointly-issued standards, such as the revised business combination and non-controlling interest standards.

Put simply: the proposal does not establish that the current U.S. GAAP reporting system is inherently ineffective, uninformative, or otherwise flawed. Nor does it establish that IFRS is inherently superior to U.S. GAAP. It does posit, however, that:

"A large and increasing number of U.S. investors hold securities of non-U.S. issuers. Further, U.S. investors have the ability to make cross-border investments readily. Thus, we believe it is important for U.S. investors to have access to the tools to compare effectively and efficiently their investment opportunities in a global capital market."

We concur with the Commission that cross-border investing is increasing - but we also note that it is occurring *without* the abandonment of U.S. GAAP. There may well be other factors influencing cross-border investment decisions besides the accounting regime. In fact, it could well be asserted that U.S. GAAP financials have more clearly delineated risks in U.S. companies that may not be as well-disclosed in equivalent IFRS-based financial statements, and investors who are relying on IFRS-based reports may be missing decision-critical information.

<u>The Early Adoption Option & Proposed Transition</u>

We understand that the proposal would allow certain U.S. filers to early-adopt IFRS as of the end of this year. Based on 2007 data, approximately 110 firms would be eligible, comprising about 12% of the total U.S. market capitalization. The eligibility is predicated on IFRS being used more frequently as the basis of financial reporting by a registrant's 20 largest listed worldwide industry peers. We question the benefit accruing to investors from this option when apparently, there are only 110 such companies eligible under the early-adoption proposal. If those 110 companies currently felt that their investor base is not being served well by U.S. GAAP reporting, there is no SEC rule prohibiting them from providing supplementary information on an IFRS basis. Such costs would be borne fairly, by the firms who believe they would reap benefits from IFRS reporting. This is a far more equitable way for IFRS reporting to get started in the United States: it should be initiated by the firms benefiting from it, rather than marching about 10,000 other firms towards a different reporting regime, with no clear benefit to them. The proposal does not present any compelling evidence that these 110 eligible early-adopters are at any economic disadvantage because they report on a U.S. GAAP basis while their competitors report on an IFRS basis.

Another cost-versus-benefit calculus troubles us: the proposed phase-in of IFRS reporting assuming the Commission decides to go forward with the proposal in 2011. We understand that the phase-in would begin for large accelerated filers in fiscal years ending on or after December 15, 2014; for accelerated filers, in years ending on or after December 15, 2015; and for non-accelerated filers, including smaller reporting companies, in years ending on or after December 15, 2016. By this plan, there will be at least two years in which domestic companies will not be comparable to each other because there will be two bases of accounting employed, determined by the size of the companies. We fail to see how that will benefit investors in this country - or even those outside of this country.

More troubling is the Commission's past record in phasing in the Section 404 reporting requirements of the Sarbanes-Oxley Act ("SOX"). Over six years have elapsed since the law was passed, and after five extensions of deadlines to fully comply with the Act's internal control reporting provisions, there are still significant numbers of U.S. companies that do not yet report on the adequacy of their internal controls and include their auditor's opinion thereon. We are concerned that this same scenario could be replayed in the deployment of IFRS reporting in America. If the early experience of the large accelerated filers is more expensive and time-consuming than currently envisioned by the Commission, the remaining registrants might balk and continually petition for extensions. As the Section 404 experience showed, those tactics worked. With IFRS implementation, there could be far more reporting inefficiencies created that would have to be borne by investors and other financial statement users. The lack of comparability among companies on different reporting bases would hamper investors' most basic analytical practices, adding complexity to the tasks of investors where none had previously existed. If firms are not willing to embrace a move to IFRS in accordance with the proposed timetable, the lack of comparability might well be prolonged.

The proposal's phase-in approach creates this uneven domestic reporting by default. As we stated earlier, we favor an evolutionary approach to convergence, effected via a true convergence of FASB and IASB projects and standards. It would result in a smoother changeover representing a mere label change and nothing more. We also believe that this is the approach that the two standard-setters have been committed to and have been following since 2002, with the ultimate objective being a seamless convergence. Accordingly, we encourage the Commission to return to that plan.

<u>Our View On The Roadmap Milestones</u>

We note that the Commission proposes to incorporate the concept of "milestones" in making its 2011 decision on the mandatory implementation of IFRS in the United States. We are in general agreement with the Commission that the milestones contained in Section III.A. of this release (''Milestones to be Achieved Leading to the Use of IFRS by U.S. Issuers'') comprise a framework for evaluating the desirability of moving the United States to an IFRS reporting system. As discussed above, however, we do not support the Commission's proposal regarding the limited early use of IFRS ("Milestone 5") and the proposed phase-in of mandatory implementation of IFRS ("Milestone 7").

We also believe that such milestones should not be a 2011 go-or-stop decision for changing over in 2014 ("Milestone 6"). Instead, we would prefer to see the Commission annually review the current state of each of the other milestones and assess what steps are needed to reach satisfactory eventual achievement of *all* milestones. We believe that such a process needs much longer than two years to be attained, but when completed, would result in a far smoother changeover to fully converged IFRS reporting.

We also have concerns regarding the other milestones to be considered in connection with the Commission's proposed 2011 deadline, as discussed below.

Milestone 1: Improvements in accounting standards. We agree that the projects needing completion by the two standard-setters, as outlined in the September 2008 Memorandum of Understanding[3] ("MOU") are indeed significant and relevant to improving financial reporting. We are less sanguine that the timetable can be realistically met in time for a 2011 decision, unless very minimal goals are set. We believe that an unprecedented level of cooperation, understanding, and manpower would be required to reach the goals set forth in the MOU. The major projects due by 2011 - financial statement presentation, lease accounting, liabilities and equity distinctions, revenue recognition and postemployment benefits including

[3] "Completing the February 2006 Memorandum of Understanding: A progress report and timetable for completion," September 2008. Available at http://www.fasb.org/intl/MOU_09-11-08.pdf

pensions – deal with complex and time-consuming subjects, and many of the projects are still in their very early stages of development. We note that some of these projects slated for completion by 2011 cover problem areas in accounting that the boards and their predecessors have spent literally decades attempting to enhance, improve, and/or overhaul. We would encourage the Commission to reevaluate the proposed time frame for achieving real progress on this critical milestone and develop a more realistic goal for achieving meaningful progress. Before adopting a policy that will only lead to continually adjusted timetables, we would encourage the Commission to rethink what is really achievable by 2011. A 2011 decision to halt adoption should not mean abandonment of convergence; it might only mean a reconsideration of progress in 2013 would be necessary.

International financial reporting standards are often described as more "principles-based" than their US GAAP equivalent. We harbor reservations about whether or not standards of a "principles-based" design will always produce robust, investor-useful reporting. We question the benefit of a move to a set of standards that, in its current state, provides minimal guidance while possibly broadening some accounting treatments as an accommodation of other countries' accounting regimes, regulatory environments and cultures. We acknowledge that IFRS has significantly improved financial reporting in many countries that have converted from their native accounting principles, or intend to convert to IFRS. However, as the two boards consider the major projects covered by the "improvements in accounting standards" milestone, we encourage them to consider developing standards that will provide more consistent results wherever they are applied. We also encourage the development of IFRS disclosure requirements that will provide transparency surrounding the divergence in application of IFRS.[4]

Milestone 2: The accountability and funding of the IASC Foundation. We have profound doubts about the ability of the IASB to function independently and in the best interests of investors in its current form. Those doubts have been confirmed by the October capitulation of the IASB when European Union politicians, at the behest of the banking and insurance lobby, coerced the IASB into amending its accounting standards on the classification of financial instruments without any public due process, including without any solicitation or consideration of investor input.[5] We are not convinced that the presence of a "monitoring group" that, as now planned, would not include substantial investor participation, could have done much to prevent this from happening. Nothing has occurred to change the view expressed in our letter to the International Accounting Standards Committee ("IASC") Foundation's July 2008 Discussion Document, Review of the Constitution, Public Accountability and the Composition of the IASB—Proposals for Change:

We, however, are not confident that the Monitoring Group would achieve its stated purpose of "complement[ing] and enhanc[ing] confidence in the governance of the organization, while still safeguarding the independence of the standard-setting process." Instead, as some commentators have suggested, the Monitoring Group may actually lessen confidence in the governance of the IASC Foundation because the group may be perceived as a vehicle for special interests to interfere with or override the decisions or judgments of the IASB and, thereby, impair the independence of the standard setting process.[6]

[4] "Are We Better Off Under IFRS?", Moody's Investors Service, by Trevor Pijper, Monica Merli, David Staples, Eric de Bodard, and Myriam Durand, November 2008. Of particular note are pages 10-12, under the headings "What Is Less Helpful about IFRS: Lack of Standardisation" and "Inconsistent Interpretations."

[5] *See, e.g.*, Glenn Kessler, *Accounting Standards Wilt under Pressure,* Wash. Post, Dec. 27, 2008, at A01, *available at* *http://www.washingtonpost.com/wp-dyn/content/article/2008/12/26/AR2008122601715.html* ("In October, largely hidden from public view, the [IASB] . . . changed the rules so European banks could make their balance sheets look better. The action let banks rewrite history, picking and choosing among their problem investments to essentially claim that some had been on a different set of books before the financial crisis started.")

[6] Letter from Jeff Mahoney, Co-Chair, Investors Technical Advisory Committee, to Tamara Oyre, Assistant Corporate Secretary, IASC Foundation 4 (Sept. 26, 2008) (emphasis added and citations omitted) (on file with ITAC), available at http://www.iasb.org/NR/rdonlyres/BE64C3F2-193D-4DF1-B5EF-1365374A5131/0/62.pdf.

With regard to the formation of a Monitoring Group, we believe it is essential that a substantial proportion of the members of that group comprise investors. Otherwise, we have doubts about the Monitoring Group's ability to isolate the IASB from special interests, which is vital to ensuring its independence is respected and its formal due process is observed in *all* of its standard-setting activities – even in times of crisis. The IASB's own Conceptual Framework declares investors to be the IASB's primary constituency and concern. As long as investors are not admitted to the deliberation table and do not have substantial decision-making authority for either the governance (proposed Monitoring Group and IASC Foundation) or standard setting activities at the IASB, this body cannot credibly serve as the sole global financial reporting standard setter for investors and global markets.

We also remain unconvinced that a funding mechanism has been devised yet which will satisfy the criteria set forth in Section 109 of the SOX and provide sufficient resources to support a high-quality independent global accounting standard setter. More specifically, Section 109 of SOX requires an accounting standard-setter designated by the SEC to be independently funded. At this time, the IASB is not independently funded, and we are not aware of any clear evidence of progress in that area. Indeed, as a result of the strained finances available to the IASB, the Board currently must place heavy reliance on contributed human resources from the major auditing firms in order to complete its standard setting agenda for the benefit of investors. This arrangement does not contribute to the trust and confidence that investors must be able to place in the independence of the IASB or the usefulness to investors of the resulting standards.

Milestone 3: Improvement in the ability to use interactive data for IFRS reporting. The milestone relating to interactive data requires that "in order to realize the improvements in the usefulness and comparability of financial information anticipated upon the widespread use of interactive data, U.S. issuers would have to be capable of providing IFRS financial statements to the Commission in interactive data format at a greater level of detail than is currently available."

As we understand it, interactive data is a work in progress for firms reporting under either U.S. GAAP or under IFRS. This is a technology that is not yet available for general use by investors, and will not be available until much later in 2009. We would expect that the taxonomies to be required for IFRS-basis entities be no less robust than those being considered for firms reporting on a U.S. GAAP basis. At the same time, it is difficult for investors to assess the adequacy of this milestone before they have first-hand knowledge of the usefulness and effectiveness of interactive data. Moreover, and although it is currently the same for U.S. GAAP, the proposal does not make clear what provisions will be required for an audit opinion regarding the integrity and faithfulness of the interactive data reported. Without such an opinion, investors will not be able to place any reliance upon the reported data.

Milestone 4: Education and training relating to IFRS. The obvious problem with education and training related to IFRS is that little of either currently exists in the United States. For example, no widely-used and authoritative text on IFRS has been developed for use in college-level intermediate and advanced accounting courses. In addition, the state boards of accountancy have not yet even agreed to require the testing of IFRS expertise on the Uniform CPA Examination, the minimum entry requirement for admission to the auditing profession in the U.S. As a consequence, and due to their global reach, the most significant body of IFRS expertise lies in the Big Four auditing firms. In fact, their experience in understanding and applying IFRS is far more extensive than that of the SEC staff, of whom the proposal states: "the Commission staff has continued to develop its familiarity with IFRS and such efforts would need to continue and intensify if the Commission were to require" IFRS reporting for domestic registrants. The Big Four, a group that this proposal would benefit enormously from a business standpoint, is also likely to enjoy a significant technical knowledge advantage over their regulator if this proposal is enacted. The Big Four already dominates the market for audits of global enterprises, and there have long been concerns about the concentration of power in the auditing profession. We are uncomfortable with the additional monopoly status that this proposal's convergence approach would confer upon them.

Aside from the issues of knowledge concentration, bringing IFRS into university classrooms and the CPA examination, re-education would be needed for existing practitioners who would have to apply IFRS standards to existing financial reporting. The cost of re-education would likely be very high, until convergence efforts result in a conversion that is merely a label change from "US GAAP" to "IFRS." Again, the benefit of such disruption is not readily discernible. We believe the incremental and evolutionary method of convergence suggested earlier would avoid these costly and risky disruptions.

Other Considerations

There are several other parts of the proposal that concern us. We do not agree with either proposal choice for the presentation of an IFRS-to-GAAP reconciliation, given the substantial divergences between the two sets of standards. We believe investors are not well-served by either a one-year audited reconciliation or by a three-year unaudited reconciliation, and that a three-year *audited* reconciliation is the best route to follow. We are aware that some observers argue that there is no need for a reconciliation at all, on the grounds that there is no corresponding reconciliation for foreign private issuers. We opposed the elimination of that reconciliation in our August, 2007 letter, and we believe the Commission has made a grave error in that decision.[7] The reconciliation provided investors with information as well as education about the effects of IFRS reporting versus their already-familiar financial reporting and it provided objective measurement of the results of IFRS/GAAP convergence efforts. We see no reason for the Commission to repeat its prior mistake by either eliminating a reconciliation in this proposal, or by presenting investors with a very weak alternative.

Another substantial weakness in IFRS is that currently there is no entity with the authority to enforce the IFRS requirements on companies that have adopted the standards. While the SEC would fulfill that role for U.S. companies reporting under IFRS upon adoption, the lack of international enforcement authorities capable of requiring non-U.S. companies to honestly comply with the IFRS standards could lead to a substantial amount of diversity in practice and non-comparability between U.S. and non-U.S. filings filed under IFRS. This issue is underscored by the fact that we have already seen the EU elect a "carve-out" from parts of IAS 39.

We also observe that the proposal does not address the accounting to be used by registrants whose accounting is governed by the Investment Company Act of 1940; it merely excludes them from the scope of the proposal. Presumably, they should continue to follow U.S. GAAP, but for how long? We are unaware of any plans for IASB to address shortcomings in investment company accounting principles or disclosures as compared to US reporting requirements. Further, the proposal does not speak to the fate of the FASB, which derives its authority as an accounting-standards setter from the SEC. The proposal does not make clear that upon achieving convergence - as defined by this proposal - the IASB would be the sole designated accounting authority under the SOX's Section 108. For at least two years, some U.S. firms would be following the FASB's U.S. GAAP reporting standards, while the rest would be following the IASB's IFRS standards. As discussed above, we do not support such a structure, and we are also troubled by the approach's inconclusive handling of the FASB's fate.

There is another aspect of IFRS conversion that the proposal does not address, simply because it cannot. That is the issue of non-public companies. Not only would the proposed phase-in approach create dual reporting within the universe of public companies, there would also be a lack of comparability between public and non-public companies. Private companies, presumably following U.S. GAAP (if the FASB continues as the arbiter of non-public standards) would face a new hurdle in going public: the cost of converting to IFRS reporting. We believe that this new barrier to entering public capital markets would be another unintended effect of this proposal. We believe our suggested evolutionary route to convergence would put public and non-public companies on the same reporting basis over time, without the disruption that

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[7]Ibid.

this proposal would cause.

Conclusion

In closing, while our comments indicate a healthy amount of skepticism related to a potential 2014 *conversion* to IFRS, these remarks should not be seen as a position of opposition to *convergence*. We believe that there are benefits to the boards working together to attempt to arrive at high-quality, fundamentally-sound, and robust standards. We wish to reiterate our considerable doubts regarding the highly aggressive and seemingly unrealistic timetable outlined in the proposal, and strongly urge the Commission to reconsider the proposed milestones. Until the major differences between the respective standards of U.S. GAAP and IFRS have been closed, we hope that there will be considerable cooperation between the boards.

We thank you for considering our comments. If you wish to discuss any of them or if you have any questions, please feel free to contact the undersigned or any ITAC member.

Sincerely,

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