

November 13, 2007

Nancy M. Morris
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Reference No. S7-20-07 Concept Release, *Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards*

Dear Ms. Morris:

Deloitte & Touche LLP is pleased to comment on the concept release, *Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards* (the “Concept Release”), issued by the Securities and Exchange Commission (SEC or the “Commission”).

The Commission has asked for information on whether it is in the public’s interest to allow U.S. issuers to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs), as published by the International Accounting Standards Board (IASB), for U.S. reporting purposes. As the Concept Release notes, the SEC’s recent proposal¹ (the “Proposing Release”) to accept foreign private issuers’ financial statements in accordance with IFRSs,² without the reconciliation to U.S. generally accepted accounting principles (GAAP), raised the question of whether IFRS financial statements also should be accepted for U.S. issuers.

We strongly support the ultimate goal of having a single set of globally accepted accounting standards that all U.S. issuers could use. To that end, we believe that the SEC should develop a comprehensive plan to eventually transition all U.S. issuers to IFRSs. We believe that in the interim, giving U.S. issuers the option to use IFRSs in preparing their financial statements will facilitate movement toward a single set of standards. We support the SEC’s permitting this option as soon as feasible, provided that there is sufficient time for preparers, auditors, and users to be educated and trained on IFRSs.

We believe that in developing a comprehensive plan to transition all U.S. issuers to IFRSs, the Commission should ensure that:

¹ See File Reference No. S7-13-07.

² In this letter, IFRSs are those published by the IASB, unless otherwise noted.

- A global regulatory infrastructure exists to facilitate faithful and consistent IFRS application around the world.
- A process exists to ensure that the IASB will continue to produce high-quality, objective accounting standards. This would include addressing the IASB's current funding and oversight and taking the necessary steps to ensure that the IASB has sound governance policies.
- Sufficient time exists for academic curricula to be developed and implemented.
- The comprehensive convergence efforts between the IASB and the Financial Accounting Standards Board (FASB) are completed.

The ultimate quality of IFRSs lies in having a consistent application of the standards across jurisdictions. Failure to achieve such consistency could diminish the usefulness of the resulting information provided to users.

We recognize that in the short term, the transition to, and implementation of, IFRSs in the United States will require significant cost and effort. However, by first giving U.S. issuers the option of adopting IFRSs, each registrant and other key participant in the financial reporting process can make its own decision about whether the cost and effort necessary to transition from U.S. GAAP to IFRSs outweigh the benefits of such a transition. During this interim period, the accounting profession also would have an opportunity to more fully assess and address the implications of using IFRSs in the United States.

Our detailed responses to specific questions raised in the Concept Release are contained in the Appendix to this document.

We appreciate the opportunity to comment on the Concept Release. If you have any questions concerning our comments, please contact either Jim Schnurr at 203-761-3539 or D.J. Gannon at 202-220-2110.

Yours truly,

/s/ Deloitte & Touche LLP

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Annette L. Nazareth
Commissioner Kathleen L. Casey
Conrad Hewitt, Chief Accountant
John W. White, Director of the Division of Corporation Finance

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THE EFFECT OF IFRS ON THE U.S. PUBLIC CAPITAL MARKET

Question 1 — Do investors, U.S. issuers, and market participants believe the Commission should allow U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB?

Yes, from Deloitte & Touche LLP's perspective. The Commission no doubt realizes a variety of views will be expressed on this question by participants in the financial reporting process. The development of a single set of high quality, globally accepted accounting standards is the ultimate goal. It is within this context, we support the Commission's efforts and believe that U.S. issuers should be given the option to file financial statements using IFRSs provided there is sufficient time for preparers, auditors, and users to be educated and trained on IFRSs.

Giving U.S. issuers the option to use IFRSs will enable further assessment of how IFRSs function in the U.S. market. The experiences of issuers that elect to convert to IFRSs could help resolve questions about investor education, auditor effectiveness, regulator enforcement, and the willingness to make judgments under IFRSs.

The Commission should develop a comprehensive plan to transition all U.S. issuers to IFRSs by a certain date. We believe that if two "alternative" sets of standards were to coexist for an extended period of time, the costs would outweigh the benefits in the long run, even if both sets were high quality and served the needs of investors and other financial statement users.

Question 2 — What would be the effects on the U.S. public capital market of some U.S. issuers reporting in accordance with IFRS and others in accordance with U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? For example, would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Would comparative advantages be conferred upon those U.S. issuers who move to IFRS versus those U.S. issuers who do not (or feel they can not)? Would comparative advantages be conferred upon those investors who have the resources to learn two sets of accounting principles (IFRS and U.S. GAAP) as compared to those who do not?

We believe that the coexistence of U.S. GAAP and IFRSs should be temporary. During this period, implementation issues and costs would be borne initially by the companies that expect to benefit the most from adopting IFRSs. The initial participation of these voluntary issuers will help resolve implementation and other issues, which would benefit later participants that adopt IFRSs either voluntarily or by requirement.

Over time, however, the costs of maintaining dual standard-setting and dual compliance mechanisms would outweigh the benefits. Moreover, dual systems introduce an unnecessary level of complexity into a financial reporting system already struggling with this problem.

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In addition, see our responses to Questions 5, 6, and 22 below.

Question 5 — What immediate, short-term or long-term incentives would a U.S. issuer have to prepare IFRS financial statements? Would the incentives differ by industry segment, geographic location of operations, where capital is raised, other demographic factors, or the aspect of the Commission’s filing requirements to which the U.S. issuer is subject?

Immediate, short-term and long-term incentives exist for a number of U.S. issuers. In general, issuers look beyond their home country’s borders for capital. Companies wishing to access capital markets in different jurisdictions must comply with the requirements of each jurisdiction. In addition, companies may have foreign subsidiaries with local or statutory reporting requirements. These requirements historically have differed in many respects. Different listing and local reporting requirements increase the cost of accessing multiple capital markets and create inefficiencies in cross-border capital flows.

In the long term, the principal capital markets around the world will allow or require companies to file under, or reconcile financial statements to, IFRSs for public reporting purposes. In addition, many countries currently, or will, permit or require the use of IFRSs for local or statutory purposes.

U.S. issuers that prepare and file financial statements in multiple jurisdictions may see cost savings if they are allowed to prepare financial statements in accordance with IFRSs. The use of one set of globally accepted standards not only for public, but also for local or statutory purposes will further reduce the costs of financial reporting.

In our experience, many companies adopting IFRSs have been able to benefit in the following ways:

- *Greater consistency in reporting* — IFRSs allow for the development of a consistent set of accounting policies for *both* local statutory and consolidated reporting, which improves the comparability of financial information and tax planning.
- *More efficient use of resources* — IFRSs may facilitate the development of centralized processes through a shared-services approach, allowing for the efficient use of resources and reducing reliance on local resources for local statutory accounting. It also may facilitate the development of standardized training programs and may eliminate divergent accounting systems, reducing third-party fees related to local statutory reporting.
- *Improved controls* — IFRSs allow for more control over statutory reporting thereby reducing risks associated with penalties and compliance problems at the local level. Many local statutory reports are prepared based on manual

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conversion from U.S. GAAP. Often there is no world-wide owner for statutory reporting.

- *Better cash management* — Dividends that can be paid from subsidiaries are based on local financial statements. A change from local GAAP to IFRSs can have significant effects on cash dividends, allowing consistent worldwide use of a standard that can improve cash flow planning.

Some argue that the markets will ultimately drive conversion to IFRSs. The capital markets may demand significant competitors to report financial information that is based on IFRSs in order to allow investors to have an “apples-to-apples” perspective when comparing results of companies in the same industry but different geographical locations. The level of local reporting outside the United States and the impact of differences between IFRSs and U.S. GAAP also will play a role in a company’s decision to adopt IFRSs.

Question 6 — What immediate, short-term or long-term barriers would a U.S. issuer encounter in seeking to prepare IFRS financial statements? For example, would the U.S. issuer’s other regulatory (e.g., banking, insurance, taxation) or contractual (e.g., loan covenants) financial reporting requirements present a barrier to moving to IFRS, and if so, to what degree?

A U.S. issuer would encounter certain barriers in adopting IFRSs; however, these barriers are principally related to cost and education and can be overcome over time. An issuer also would need to address cultural issues. (See our responses to Questions 20 and 22 for further discussion.) Additional barriers include the requirements under loan covenants and trust agreements to prepare financial statements under U.S. GAAP, the availability of staff and auditors who are knowledgeable about IFRSs, and potential changes to financial reporting software applications.

In the longer term, these barriers can be overcome. Regarding regulatory and contractual financial reporting obligations, we have found that regulators and users, such as private lenders, have become increasingly receptive to restructuring contractual financial reporting requirements to align with IFRSs.

Question 7 — Are there additional market forces that would provide incentives for market participants to want U.S. issuers to prepare IFRS financial statements?

See our responses to Questions 2 and 5 above.

Question 8 — Are there issues unique to whether investment companies should be given the choice of preparing financial statements in accordance with IFRS? What would the consequences be to investors and other market participants of providing investment companies with that choice?

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In the United States, investment companies follow specialized industry guidance under the AICPA Audit and Accounting Guide, *Investment Companies*. Such guidance would not be applicable under IFRSs. Examples of differences include the following:

- IFRSs require consolidation of all controlled entities, while under U.S. GAAP and SEC guidance, the consolidation of a nonregistered investment company into a registered investment company (RIC) is not permitted, except under limited circumstances. Although most RICs do not own a significant enough portion of outstanding capital in a company for consolidation to result, many business development companies or small business investment companies do.
- IFRSs require that shares of the funds be treated as liabilities if the shareholders are allowed to redeem their shares. As a result, the financial statements of the fund under IFRSs are not comparable to those of a U.S. entity in terms of per-share data. This issue would be compounded for entities that issue multiple classes of shares.
- The Commission's non-financial statement disclosure regime is based on U.S. GAAP, which assumes a fair value accounting model.

The items above result in IFRS financial statements for investment companies not being comparable to those under U.S. GAAP. Given the different reporting requirements under IFRSs versus U.S. GAAP, we would not expect that many investment companies would opt to prepare IFRS financial statements.

If the SEC allows investment companies to use IFRSs, it should consider what additional financial and non-financial disclosures may be necessary for these companies (e.g., additional fair value information about the issuer's investments). This disclosure could be in the form of a supplemental balance sheet. See our response to Question 21 for further discussion.

Question 9 — Would giving U.S. issuers the opportunity to report in accordance with IFRS affect the standard setting role of the FASB? If so, why? If not, why not? What effect might there be on the development of U.S. GAAP?

The Commission should encourage the convergence efforts between the IASB and the FASB and should ensure that they continue — indeed accelerate — after giving U.S. issuers the choice of reporting in accordance with IFRSs. Continuing the convergence efforts is important to the development of a single set of global accounting standards that eventually would be used by all U.S. issuers. Substantial convergence between U.S. GAAP and IFRSs before requiring all U.S. issuers to adopt IFRSs would ease the transition for U.S. issuers that have yet to adopt IFRSs.

Question 10 — What are investors', issuers' and other market participants' opinions on the effectiveness of the processes of the IASB and the FASB for convergence? Are investors and other market participants satisfied with the

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convergence progress to date, and the robustness of the ongoing process for convergence?

In our view, IFRSs are of sufficient quality to provide transparent financial information, and are at least as prominent as U.S. GAAP. We recognize that there may be instances where similar, but not necessarily identical standards, are developed. While there may be ongoing differences between IFRSs and U.S. GAAP we believe that as long as the resulting standards are of sufficient quality and the financial statements are transparent then investors and issuers will be well served.

We also recognize that at times the process of convergence has been inefficient. Before all U.S. companies transition to IFRSs, a process should be in place to ensure the culmination of the convergence effort between the IASB and the FASB. In addition, a process should be in place to ensure that the IASB continues to produce high-quality, objective accounting standards. This includes addressing issues relating to the IASB's current funding and oversight.

Question 11 — How would the convergence work of the IASB and the FASB be affected, if at all, if the Commission were to accept IFRS financial statements from U.S. issuers? If the Commission were to accept IFRS financial statements from U.S. issuers, would market participants still have an incentive to support convergence work?

See our responses to Questions 9 and 10.

Question 12 — If IFRS financial statements were to be accepted from U.S. issuers and subsequently the IASB and the FASB were to reach substantially different conclusions in the convergence projects, what actions, if any, would the Commission need to take?

See our response to Question 10. We believe that if U.S. issuers are given a choice of using IFRSs, the Commission would not need to take any further action when different conclusions are reached as long as the SEC and other organizations believe that the standard-setting processes are appropriate and the quality of the standards continues to be high.

However, we believe that before all U.S. issuers can be required to use IFRSs, a substantial level of convergence must exist between U.S. GAAP and IFRSs.

GLOBAL ACCOUNTING STANDARDS

Question 13 — Do investors, issuers and other market participants believe giving U.S. issuers the choice to prepare financial statements in accordance with IFRS as published by the IASB furthers the development of a single set of globally accepted accounting standards? Why or why not, and if so, how?

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See our responses to Questions 1, 2, 9, and 10.

Question 14 — Are investors, U.S. issuers and other market participants confident that IFRS have been, and will continue to be, issued through a robust process by a stand-alone standard setter, resulting in high quality accounting standards? Why or why not?

We believe that the education, diversity, and objectivity of the IASB, which comprises well-established, knowledgeable members from various countries, allow for the issuance of high-quality accounting standards. We also believe that IFRSs currently are of sufficient quality to be accepted as a basis of financial reporting by U.S. issuers.

See also our responses to Questions 9 and 10 above.

Question 16 — What are investors', U.S. issuers' and other market participants' views on how the nature of our relationship with the IASB, a relationship that is different and less direct than our oversight role with the FASB, affects the Commission's responsibilities under the U.S. securities laws?

While the Commission does not have direct oversight over the IASB, members of the SEC staff attend IFRIC meetings as observers and participate in the Standards Advisory Council. The Commission also directly oversees the FASB and the convergence of IFRSs and U.S. GAAP. We note that the IASB has demonstrated, and continues to demonstrate, a willingness to meet with regulators and other stakeholders charged with oversight responsibilities.

However, before requiring all U.S. issuers to prepare financial statements in accordance with IFRSs, the SEC should ensure that the IASB will continue to produce high-quality, objective accounting standards. This would include addressing issues relating to the IASB's current funding and oversight. We commend the recent announcement by the SEC, the European Commission, the Financial Services Agency of Japan, and IOSCO indicating the intention to work together to strengthen the framework for governing the IASB.

IFRS IMPLEMENTATION MATTERS FOR U.S. ISSUERS

Question 17 — In what ways might the Commission be able to assist in improving investors' ability to understand and use financial statements prepared in accordance with IFRS?

We believe that the SEC should take a leadership role in improving investors' abilities to understand and use IFRS financial statements. Activities that the Commission could undertake include the following:

- An educational series on IFRSs for investors, led or sponsored by the SEC.

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- A section on the SEC’s Web site dedicated to education on IFRSs, including a discussion of (1) issues associated with IFRSs and (2) differences between U.S. GAAP and IFRSs.
- Making the viewpoints of global regulators more transparent. See our response to Question 27.

Question 18 — What are the incentives and barriers to adapting the training curricula for experienced professionals to address both IFRS and U.S. GAAP? Separate from ongoing training, how long might it take for a transition to occur? How much would it cost?

As companies around the globe continue to migrate to IFRSs, there is an incentive for all market participants to educate themselves about IFRSs. We recognize that it is becoming more important to be knowledgeable about IFRSs and U.S. GAAP, particularly given the globalization of the world’s capital markets. This means developing and training our U.S. professionals to be proficient at applying IFRSs. While there will be challenges in undertaking this effort, we are able to leverage our existing training and consultation infrastructure. Our global network, Deloitte Touche Tohmatsu, also has established “IFRS accreditation standards” applicable to professionals in all member firms that serve companies using IFRSs.

However, U.S. professionals who already have knowledge in U.S. GAAP may find it easier to understand IFRSs than do professionals in other countries, since many of the concepts and principles underlying IFRSs are similar to those underlying U.S. GAAP. In addition, many differences have been, or are being, aligned or narrowed via the ongoing convergence efforts. Nevertheless, certain differences remain and will need to be addressed. By leveraging our current knowledge of U.S. GAAP and focusing on the key differences in principles and alternatives in IFRSs, we hope to deliver effective training to our U.S. professionals within the next two to three years.

Question 20 — What issues would be encountered by U.S. issuers and auditors in the application of IFRS in practice within the context of the U.S. financial reporting environment?

The most significant IFRS application issue we see is a cultural one. This includes the cultural differences and perspectives underlying the interpretation and application of standards and the legal and financial consequences of alleged departures from the standards.

In using IFRSs, U.S. issuers and auditors, as well as regulators, and users, will need to adapt to an accounting and financial reporting framework that requires more judgment and less reliance on bright lines. These issues could “make or break” a successful move to a single, global set of standards. Unfortunately, the outcome is difficult to predict because so many different interested parties have a stake in the process and cultural issues involve behavioral and intangible aspects.

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Nevertheless, the Commission should move forward under the conditions discussed in our comment letter. The market efficiencies associated with a single financial language, especially given the rapid development of the economic superpowers outside Europe and the United States, warrant the bold step of the Commission's proposal. However, in support of this effort, the Commission must ensure that all of its divisions encourage the move to a single set of standards and must lend its considerable weight and authority to other institutions outside of its control.

Issuers and auditors will be required to understand base principles and objectives, how judgments are made, and how they are applied in relation to the base principles and objectives underlying IFRSs. It is critical that the focus be on the overall principle being interpreted or applied. The challenge for issuers and auditors (as well as regulators) is to ensure that while different outcomes may exist in the application of IFRSs, such outcomes are within the conceptual parameters of the standard.

Such an approach to accounting requires a change in behavior by all market participants. Preparers, users, auditors, and regulators should rely less on bright lines and more on understanding the substance underlying a transaction or event. Thus, they can make sound professional judgments in determining the appropriate accounting under IFRSs. Key questions market participants can ask include the following: Does the financial reporting make sense? Does it follow the underlying economics? How does it compare with the financial reporting of other companies under similar circumstances?

Question 21 — How do differences between IFRS and U.S. GAAP bear on whether U.S. issuers, including investment companies, should be given the choice of preparing financial statements in accordance with IFRS?

In general, we do not believe that differences between IFRSs and U.S. GAAP should bear on whether U.S. issuers should be given the choice of preparing financial statements in accordance with IFRSs, as long as there is a commitment to eventually eliminate the substantial differences through convergence. We believe that IFRSs are of sufficient quality for use by U.S. issuers. While there may be ongoing differences between IFRSs and U.S. GAAP while an option is allowed, we believe that as long as the financial statements are transparent, investors and issuers will be well served.

If U.S. issuers are given a choice of using IFRSs or U.S. GAAP, one likely consideration as part of their decision to adopt IFRSs is the impact of differences between IFRSs and U.S. GAAP on the financial statements. Ultimately, whether a different accounting outcome results from different requirements under IFRSs and U.S. GAAP will depend on the specific facts and circumstances.

As discussed in our response to Question 20, the use of IFRSs will require a new perspective. In general, U.S. GAAP contains much more detailed guidance than IFRSs. This is particularly true for certain industry-specific issues. In certain cases, the accounting conclusion an issuer has reached under U.S. GAAP may be acceptable under IFRSs while in other cases, it may not. The number and significance of different

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accounting outcomes associated with the application of U.S. GAAP and IFRSs will vary from issuer to issuer, and will depend on important factors such as the industry the company operates in and the accounting policy choices the company has made.

With respect to investment companies, we note that more fundamental differences exist between the reporting requirements under IFRSs and U.S. GAAP (see our response to Question 8). As a result, the financial statements of an investment company may be completely different under IFRSs versus U.S. GAAP. We strongly encourage the Commission to consider the impact of these differences on the information needs of U.S. investors.

Question 22 — What do issuers believe the cost of converting from U.S. GAAP to IFRS would be? How would one conclude that the benefits of converting justify those costs?

The costs of converting to IFRSs will vary for each issuer depending on how pervasive the differences are between U.S. GAAP and IFRSs. The more significant costs of converting to IFRSs are those for education and training and those for potential systems changes. These costs, while significant, may be outweighed by the benefits of converting to IFRSs. While sometimes it may be difficult to quantify the benefits of using IFRSs, a number of companies have concluded that in the long term, the benefits of conversion exceed the additional costs incurred. See our response to Question 5.

We also note that investors, regulators, and other market participants may benefit from issuers moving to IFRSs. Users of financial information benefit when they are able to compare the performance of similar companies regardless of where those companies are domiciled or the country or region in which they operate.

For regulators, the focus has been on lowering the barriers to capital formation and maintaining the quality of financial reporting. Financial markets and investors, regardless of geographic location, depend on financial information to function effectively. We believe that markets allocate capital best when the participants can make judgments about the merits of comparable investment opportunities on the basis of reliable financial information. Use of IFRSs has gone a long way toward increasing the quality of financial reporting worldwide.

Question 23 — Would audit firms be willing to provide audit services to U.S. issuers who prepare their financial statements in accordance with IFRS? How, if at all, would allowing U.S. issuers to prepare IFRS financial statements affect the current relative market shares of audit firms?

Many member firms of our global network currently provide audit services to companies preparing IFRS financial statements. This includes foreign private issuers. Our challenge is to increase the knowledge and expertise of U.S. member firm personnel to meet the needs of U.S. issuers potentially adopting IFRSs.

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We have no reason to believe that allowing U.S. issuers to prepare IFRS financial statements will affect the current market shares of audit firms.

Question 24 — What factors, if any, might lead to concern about the quality of audits of IFRS financial statements of U.S. issuers?

Because IFRSs provides for greater judgment in application, there may be instances in which different accounting outcomes exist for the same or a similar set of facts, which could lead to concerns about audit quality. This is especially of concern when different jurisdictions apply different interpretations of the same principles. Without transparency in the financial statements, users of auditors' reports may misunderstand the basis of accounting and any differences between it and IFRSs. See our response to Questions 26 and 27.

Question 25 — Would any amendments or additions to auditing and other assurance standards be necessary if U.S. issuers were allowed to prepare IFRS financial statements?

We do not believe that there would need to be any substantive changes to the audit performance standards. There would, however, need to be changes to the audit reporting standards, which are based on use of U.S. GAAP. For example, the first standard of reporting states, "The report shall state whether the financial statements are presented in accordance with GAAP." More generally, throughout the reporting standards (except for *AICPA Professional Standards*, AU Section 623, "Special Reports"), the assumed accounting framework is U.S. GAAP. If U.S. issuers were allowed to use IFRSs, then these references would need to be broadened in some way to encompass IFRSs.

In addition, *AICPA Professional Standards*, AU Section 534, "Reporting on Financial Statements Prepared for Use in Other Countries," addresses U.S. auditors auditing U.S. entities using a basis of accounting other than U.S. GAAP for use outside the United States. If U.S. issuers were allowed to use IFRSs, then AU Section 534 would need to be changed to exempt IFRSs from its provisions.

Question 26 — How could global consistency in the application of IFRS be facilitated by auditors of U.S. issuers?

With more companies, including U.S. issuers, using IFRSs, a greater opportunity exists to identify and address application issues, which should lead to greater consistency in the application of IFRSs. Ultimately, successful implementation of IFRSs will depend on a more consistent application and greater transparency in the judgments being made in applying the standards.

Consistent and faithful application of IFRSs across countries has been a challenge. In our experience, the financial statements of companies using IFRSs have been diverse. Most companies that are currently applying IFRSs (including a jurisdictional version thereof) only have done so for a year or two. We recognize the significant efforts undertaken by

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companies in moving from local standards to IFRSs. While IFRS practice has been diverse, we expect it to narrow as issuers, auditors, and regulators identify and address diverse application and interpretive issues.

To narrow divergent practices, convergence efforts also should be made at the interpretive and enforcement levels. We encourage existing national interpretive bodies and regulators to work together to avoid producing competing IFRS interpretations; otherwise, more divergent practices will be created. See our response to Question 27.

Question 27 — Do you think that the information sharing infrastructure among securities regulators through both multilateral and bilateral platforms will improve securities regulators' ability to identify and address inconsistent and inaccurate applications of IFRS?

We have seen evidence of different regulatory approaches to IFRS by regulatory agencies. While local regulatory practices need to be respected, such practices should be converged. Before transitioning all U.S. issuers to IFRSs, a global regulatory infrastructure that ensures a faithful and consistent IFRSs application should be in place.

We support the efforts of the SEC in developing a formal process with its European counterparts to try to resolve these types of issues through the SEC/CESR Work Plan. We also support the bilateral efforts between the SEC and other regulators in addressing divergent IFRS practices. It is important that the decisions and outcomes resulting from these multilateral and bilateral platforms are effectively communicated to the market on a timely basis.

Question 28 — If the Commission were to consider rulemaking to allow U.S. issuers to prepare IFRS financial statements, are there operational issues relative to existing Commission requirements on which additional guidance would be necessary and appropriate? Would it be appropriate to have differing applicability for U.S. issuers of the form and content provisions of Regulation S-X depending on whether they use IFRS in preparing their financial statements? Are there operational or other issues unique to investment companies? In preparing and auditing IFRS financial statements, should U.S. issuers and their auditors consider the existing guidance related to materiality and quantification of financial misstatements?

In a reporting framework that allows the option of IFRSs, we suggest that the Commission reconsider its current approach to non-financial statement disclosures. IFRSs often may have provisions similar to the principles embodied in a referenced U.S. GAAP pronouncement. Sometimes, however, the principle or rule embodied in the referenced U.S. GAAP pronouncement may not be readily apparent or may not even be included in IFRSs. In addition, certain definitions referenced in U.S. GAAP may be different in IFRSs.

For these reasons, we believe it is important for the Commission to identify areas in which U.S. GAAP pronouncements are referenced and address the implications, if any, of

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using IFRSs. We believe that this issue becomes more important as the SEC considers giving U.S. companies the option of using either U.S. GAAP or IFRSs.

In addressing this issue, the Commission may wish to assess each reference to a U.S. GAAP pronouncement to determine instances in which:

1. Similar guidance exists in U.S. GAAP and IFRSs.
2. No guidance exists in IFRSs.
3. The guidance in U.S. GAAP and IFRSs is different.

For U.S. GAAP references in the first category above, the Commission may wish to include the corresponding reference to IFRSs. Alternatively, it may wish to describe the underlying concept without referring to a specific U.S. GAAP or IFRS pronouncement.

Items in the second category above would need to be reconsidered. The Commission should determine whether the non-financial statement disclosure requirement is applicable for issuers using IFRSs. Alternatively, if the Commission concludes that the information disclosed is relevant, then it may want to consider using the U.S. GAAP requirement as a basis for the disclosure or describe the underlying concept without referring to a specific U.S. GAAP pronouncement.

Regarding the third category above, the SEC would need to consider the implication of having different definitions under IFRSs versus U.S. GAAP (e.g., the definition of “related parties”). Depending on the nature and significance of the difference, the Commission may want to reconsider the applicability of the disclosure or describe the underlying concept without referring to a specific U.S. GAAP or IFRS pronouncement.

In addition, we believe that there is a broader issue that the Commission should address regarding the inclusion of forward-looking information in footnotes to audited IFRS financial statements. For example, disclosures under IFRS 7, *Financial Instruments: Disclosure*, include forward-looking information as part of the audited financial statements. However, even more forward-looking information may be included in future IFRSs. As noted in our comment letter on the Proposing Release, we believe that it would be appropriate to provide a safe harbor relating to such information.

See our response to Questions 8 and 21 regarding issues unique to investment companies.

With regard to materiality and misstatements, foreign private issuers filing IFRS financial statements with the SEC generally have looked to the existing U.S. guidance in Staff Accounting Bulletin Topic 1.M (SAB 99), “Materiality.” Similarly, we expect U.S. issuers using IFRSs also would continue to use the existing guidance.

Question 29 — Should there be an accommodation for foreign issuers that are not foreign private issuers regardless of whether the Commission were to accept IFRS financial statements from U.S. issuers? Should any accommodation depend upon

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whether the foreign issuer is subject to the laws of another jurisdiction which requires the use of IFRS, or if the issuer had previously used IFRS financial statements in its filings with the Commission?

We support use of an accommodation for all foreign issuers.

Question 31 — When would investors be ready to operate in a U.S. public capital market environment that allows the use of either IFRS or U.S. GAAP by U.S. issuers? When would auditors be ready? How about those with other supporting roles in the U.S. public capital market (e.g., underwriters, actuaries, valuation specialists, and so forth)? Is this conclusion affected by the amount of exposure to IFRS as it is being applied in practice by non-U.S. issuers?

The expanded worldwide use of IFRSs has allowed global audit firms and other global organizations to increase their knowledge and expertise of IFRSs and of preparing IFRS financial statements.

In its February 2000 Concept Release, *International Accounting Standards*, the SEC emphasized the importance of supporting high-quality accounting standards with an infrastructure ensuring that those standards are rigorously interpreted and effectively applied. The primary elements noted for such an infrastructure were:

- Effective, independent, and high-quality accounting and auditing standard setters.
- High-quality auditing standards.
- Audit firms with effective quality controls worldwide.
- Profession-wide quality assurance.
- Active regulatory oversight.

We continue to agree that such an infrastructure is necessary to ensure consistent, faithful application of IFRSs globally. We also note that each of the above items either has been, or is being, addressed.

Under our suggested approach, U.S. issuers would initially be able to choose whether to use IFRSs, with an eventual transition to IFRSs for all U.S. issuers. During the initial phase of allowing U.S. issuers a choice of IFRSs or U.S. GAAP, implementation and other issues of concern may come to light and be resolved. This will allow the U.S. and global infrastructure to develop and address questions about investor education, auditor effectiveness, regulator enforcement, and the willingness of market participants to make judgments under IFRSs.

See our responses to Questions 1 and 2.

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Question 32 — Should the Commission establish the timing for when particular U.S. issuers could have the option to switch from preparing U.S. GAAP to IFRS financial statements? Should market forces dictate when a U.S. issuer would make the choice to switch from U.S. GAAP to IFRS financial statement reporting? If the former, what would be the best basis for the Commission’s determination about timing?

See our response to Question 1. In addition, as noted in our response to Question 18, we believe it will take two to three years to adequately train our U.S. professionals and develop a sufficient infrastructure to serve U.S. issuers that would adopt IFRSs.

Question 33 — Should the opportunity, if any, to switch to IFRS reporting be available to U.S. issuers only for a particular period of time? If so, why and for what period? At the end of that period of time, could commenters foresee a scenario under which it would be appropriate for the Commission to call for all remaining U.S. issuers to move their financial reporting to IFRS?

See our responses to Questions 1 and 2 above.

Question 34 — What difficulties, if any, do U.S. issuers anticipate in applying IFRS 1’s requirements on first-time adoption of IFRS, including the requirements for restatement of and reconciliation from previous years’ U.S. GAAP financial statements?

We do not expect U.S. issuers to experience any unique difficulties in applying the requirements of IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Question 35 — Would it be appropriate for U.S. issuers that move to IFRS to be allowed to switch back to U.S. GAAP? If so, under what conditions?

We suggest that the Commission develop a comprehensive plan to transition all U.S. issuers to IFRSs by a date certain and that U.S. issuers should temporarily be given the option to file financial statements using IFRSs. Under this approach, an option to switch back to U.S. GAAP would not be appropriate.

If the SEC does not contemplate eventually requiring the transition of all U.S. issuers, then because foreign private issuers are able to voluntarily switch primary GAAP used to prepare their financial statements, U.S. issuers should similarly be allowed to switch. However, we expect that before making the decision to switch back to U.S. GAAP, companies would consider investor undertakings, comparability issues, and costs already incurred to initially change to IFRSs. In addition, prohibiting a U.S. issuer that has moved to IFRS from switching back to U.S. GAAP would discourage some issuers from moving to IFRS. We do not believe that discouraging adoption of IFRS for U.S. issuers is conducive to developing a single set of high-quality globally accepted accounting standards.