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1 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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5 ROUNDTABLE

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7 PRACTICAL ISSUES SURROUNDING THE USE OF

8 IFRS IN THE U.S. IN RECENT YEARS AND ITS

9 POTENTIAL EXPANDED USE IN FUTURE YEARS

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13 MONDAY, DECEMBER 17, 2007

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19 U.S. Securities and Exchange Commission

20 100 F Street, N.E.

21 Washington, D.C.

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P R O C E E D I N G S

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OPENING REMARKS

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CHAIRMAN COX: Good morning. This is the SEC's second roundtable on IFRS in the U.S. markets. Today, our roundtable is going to discuss the practical issues surrounding the use of IFRS in the United States over the past few years.

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We are also going to look at issues surrounding its potential expanded use in the United States in future years.

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At the end of last Thursday's roundtable, I asked the panelists to describe what it is that the entire panel agreed upon. I posed this question because on that panel, there was a diverse range of expertise and experience, and I was interested to know how the panelists were hearing each other.

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For the record, included on that panel were the Global Chief Accountant for Standard and Poor's, the General Counsel of the Council of Institutional Investors, the head of U.S. Listings for NYSE Euronext, the head of OppenheimerFunds' Global Equity Team, the head of PWC's international accounting group in the United States, and an accounting professor from the University of North Carolina.

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In response, all of the panelists said they agreed that there would be tremendous benefits for all stakeholders in the application of a single set of high quality globally

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1 accepted accounting standards.

2 They also agreed that the rest of the world is
3 already heading in this direction, and that the end point
4 will be IFRS and not U.S. GAAP.

5 Where the panelists stated that they lacked
6 agreement was on when and how the Commission should permit or
7 require U.S. companies to transition to IFRS.

8 Today's roundtable addresses this question. To
9 frame this question properly, I should point out that we are
10 actually already in the middle of a transition to IFRS in the
11 U.S. market.

12 U.S. investors and market participants have been
13 analyzing foreign companies that are listed here on the basis
14 of IFRS financial information only for two years. At the
15 same time, the level of foreign stock ownership by U.S.
16 investors, both institutional and retail, is rapidly
17 increasing.

18 In addition, some U.S. companies are already using
19 IFRS for all of their non-U.S. operations and subsidiaries.
20 They have essentially been reconciling their results to U.S.
21 GAAP only to comply with SEC requirements.

22 Our first panel this morning will focus on the
23 practical issues surrounding the potential future use of IFRS
24 by U.S. companies.

25 We will hear from representatives of auditors,

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1 issuers, educators, and underwriters who serve domestic
2 companies.

3 Our second panel will focus on lessons that we can
4 learn from the global experience of transitioning to IFRS.

5 In 2002, the European Union adopted a new
6 regulation mandating that EU companies report their financial
7 results using IFRS. That new regulation gave companies
8 notice that IFRS would be required in 2005.

9 As a result, over 7,000 public companies throughout
10 the European Union were required to transition to IFRS within
11 a three year period. Since 2002, many other countries have
12 also switched to IFRS or are in the process of transitioning.

13 To gain the perspective of a nation that has
14 completed its transition to IFRS two years ago, we will hear
15 from a representative of the Financial Services Authority in
16 the U.K. We will also hear from the head of the FASB, and
17 from representatives of auditors, overseas issuers, credit
18 rating agencies, and global underwriters.

19 While transitioning to IFRS is not uncharted
20 territory, we don't underestimate the challenges facing us.
21 Education and training will be very important, and our
22 mission to protect investors, promote capital formation, and
23 maintain orderly markets cannot be compromised.

24 On behalf of the Commission and all of our staff, I
25 want to thank all of our roundtable participants this morning

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1 for joining us and for sharing with us your expertise and
2 your professional judgment.

3 All of us on the Commission look forward to hearing
4 your views and to learning a great deal this morning.

5 John White, who is the Director of the Division of
6 Corporation Finance, is now going to introduce the particular
7 issues that we are going to tackle on this morning's panel.

8 INTRODUCTION OF ISSUES

9 MR. WHITE: Thank you, Chairman Cox, and good
10 morning. I would also like to thank all of our panelists and
11 the audience here and watching by web cast for joining us
12 today.

13 We actually had over 700 web cast connections on
14 Thursday, and I expect we will have a similar number today.
15 There are a lot of people interested in this topic.

16 As a result of the Commission's action last month,
17 foreign private issuers in the U.S. are now permitted to
18 choose between reporting their financial statements using
19 U.S. GAAP or using IFRS as issued by the IASB without a
20 reconciliation to U.S. GAAP.

21 With that step completed, we have now begun to
22 consider whether U.S. issuers should be afforded this same
23 choice of U.S. GAAP or IFRS.

24 To that end, the Commission issued a concept
25 release in August, and we have convened these roundtables.

1 The issues addressed in the concept release and in
2 these roundtables potentially have a far greater impact than
3 the Commission's action last month to permit foreign issuers
4 to report using their financial statements in IFRS without a
5 reconciliation to U.S. GAAP.

6 That action affected a few hundred foreign private
7 issuers who already reported using IFRS in their home
8 country. All we did was delete the reconciliation to U.S.
9 GAAP.

10 Now we are looking at the prospect of possibly
11 permitting or as some have suggested even requiring thousands
12 of U.S. issuers to use an entirely new set of accounting
13 standards.

14 Last Thursday, our first roundtable on IFRS in the
15 U.S., explored the big picture question of whether U.S.
16 issuers should be permitted to report their financial
17 statements using IFRS rather than U.S. GAAP.

18 Our panel discussions featured a broad range of
19 stakeholders, as Chairman Cox described, and it was
20 interesting and informative. We heard suggestions of a
21 number of different choices, a voluntary use of IFRS for a
22 period of indeterminate length or setting a fixed date well
23 into the future when a required use of IFRS would occur, as
24 was done in Europe, or as another alternative, a combination
25 of the two, a voluntary period followed by a required switch,

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1 or a wait and see approach for now, as convergence of IFRS in
2 U.S. GAAP further develops.

3 We heard interesting ideas such as Professor Hal
4 Scott's suggestion that U.S. issuers electing to use IFRS
5 under a voluntary system be required for some period of time
6 to actually reconcile back to U.S. GAAP to assist U.S.
7 investors in the transition.

8 One theme we found near universal agreement on was
9 the possible use of IFRS by U.S. issuers would require an
10 extremely complicated transition process, and would require a
11 great deal of thought and consideration.

12 This process would impact not only issuers and the
13 systems and controls and the training of personnel that they
14 would have to engage in but would also affect other market
15 participants, such as auditors, investors, lawyers,
16 educators.

17 This is what brings us here today, to explore the
18 practical details of switching to IFRS reporting in the U.S.

19 One source of reference for us is the many other
20 countries that have transitioned to permitting or requiring
21 IFRS in recent years.

22 The most visible example is the one described by
23 Chairman Cox, which is the European Union, which in 2002
24 adopted a requirement mandating the use of IFRS for all of
25 its companies three years later in 2005.

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1 Our goal today will be to explore how to make the
2 process transitioning to IFRS reporting in the U.S. -- to
3 explore how we can do that smoothly and successfully.

4 In our first panel, we are going to look at this
5 from the perspective of U.S. investors, issuers and markets,
6 and then on the second panel, we are going to explore this
7 from a more global perspective.

8 We hope that our panelists will be able to share
9 with us some of their real world experiences and help us
10 better understand these issues.

11 I had a particular interest in this topic, as does
12 our new Chief Accountant in Corporation Finance, Wayne
13 Carnall, who is co-moderating the first panel today. The
14 Division of Corporation Finance has been reviewing the
15 financial statements of foreign private issuers using IFRS
16 for the first time for several years now.

17 Our observations and our actual comment letters can
18 be found on the SEC web site. Of course, if the Commission
19 continues down this path and ultimately allows U.S. issuers
20 to use IFRS, the Division will be reviewing the IFRS
21 financial statements of U.S. issuers.

22 We are keenly interested in the Division of
23 Corporation Finance in your feedback of how to make such a
24 transition go smoothly, so that issuers, investors, and yes,
25 even regulators, will not be disrupted.

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1 Before I give the stage over to our moderators and
2 panelists, I would also like to thank the many members of the
3 Commission's staff in the Division of Corporation Finance and
4 in the Office of Chief Accountant who have been involved in
5 organizing these round tables.

6 With that, I'll turn it over to Conrad Hewitt, the
7 Chief Accountant in the Office of Chief Accountant, and Wayne
8 Carnall, Chief Accountant in the Division of Corporation
9 Finance.

10 Conrad? Wayne?

11 PANEL 1 - THE U.S. MARKET'S PERSPECTIVE

12 MR. HEWITT: Thank you, John. Good morning
13 everyone. I'm Conrad Hewitt, Chief Accountant, U.S.
14 Securities and Exchange Commission.

15 I'm also pleased to welcome everyone to the
16 Commission's roundtable on IFRS in the United States. Today,
17 we will be hearing from a broad range of stakeholders in the
18 U.S. capital markets.

19 Joining me to moderate this panel is Wayne Carnall.
20 Wayne joined the Commission as Chief Accountant of Division
21 of Corporation Finance just this month. Glad to have you
22 here, Wayne. He's a newcomer, but he's been here before.

23 I'm also pleased to welcome our panelists. Each of
24 our panelists has an important perspective to share with us.
25 I would like to extend to them our gratitude for taking time

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1 out of their busy schedules to be here.

2 We are looking forward to an interesting and
3 informative discussion.

4 We have prepared a number of questions for each
5 panel and anticipate that the Commissioners may from time to
6 time wish to participate with questions for the panelists as
7 well.

8 We are not asking the panelists to present any
9 formal opening remarks, but as the panel nears its close
10 around 11:00, we will end the discussion phase and give each
11 panelist a minute or so for any closing thoughts and
12 suggestions they may have for the Commission.

13 To ensure that the discussion runs smoothly, I
14 would ask the panelists and Commissioners who wish to be
15 recognized by using a signal, by just turning your name card
16 like that, and we will try to hopefully recognize you, and we
17 will make every effort to do that.

18 I would also like to point out that today's program
19 is being video cast on the SEC web site, as John mentioned,
20 and will be available through the archive after today. There
21 will be a transcript of today's program showing up on the
22 SEC's web site in the very near future.

23 At this time, I would like to introduce our
24 distinguished panel. Jim Glerum, Jr. is the Managing
25 Director in the Investment Banking Department at UBS based in

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1 Chicago. They have nice weather there. He is a member of
2 the firm's Investment Banking Department's Executive
3 Committee.

4 Mick Homan is controller, Corporate Accounting, for
5 The Procter & Gamble Company.

6 Gary Illiano is the partner in charge of accounting
7 and auditing for Grant Thornton. Gary represents the U.S.
8 firm on the Grant Thornton's international IFRS
9 interpretations group.

10 Ross G. Jennings is a full professor and former
11 chair of the Accounting Department of the University of Texas
12 at Austin.

13 Danita Ostling is a partner of Ernst & Young's
14 Assurance and Advisory Business Service Professional Practice
15 and recently was appointed as America's IFRS leader.

16 Margaret Smyth recently joined United Technologies
17 as Vice President and Controller.

18 And last, Arleen Thomas is Senior Vice President
19 and member of Competency and Development at the AICPA.

20 Let me turn it over to Wayne who will set the stage
21 for today's discussion. Wayne?

22 MR. CARNALL: Thank you very much, Con. Before we
23 begin with our discussion on transition within the U.S.
24 market, we would like to see if we could establish a baseline
25 for discussion.

1 There seems to be wide support for the concept of a
2 single global set of high quality accounting standards,
3 including for U.S. issuers in our domestic market. To date,
4 in the U.S., we have been following a path of convergence of
5 U.S. GAAP and IFRS as a means of reaching this goal.

6 In the concept release, the Commission presented an
7 alternative approach which would allow the optional use of
8 IFRS by U.S. issuers.

9 For purposes of today's discussion, we will be
10 asking questions about the possible transition issues if such
11 an option were given. We will be directing a number of our
12 questions to a few of you, but we would encourage all of you
13 to feel free to address any of the questions that we ask.

14 The first questions we would like to address to
15 Peggy and Mick, for you to share with us your companies'
16 perspective on the considerations of using IFRS, including
17 the level within your organization which is involved with
18 such discussion. For example, the audit committee or the
19 Board of Directors.

20 Mick?

21 MR. HOMAN: Thank you. P&G is actually fairly
22 early in the process. We did initiate a project a few years
23 ago when a lot of our foreign subsidiaries had to go under
24 IFRS reporting. We viewed that as a very significant
25 simplification opportunity for the company because we do have

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1 statutory reporting in over 100 countries around the world.

2 The focus at that point in time was mainly on
3 setting up the framework for our subsidiaries to do the
4 reporting, but we still handled it fairly local. We let them
5 execute and do their detailed planning.

6 We have more recently initiated a project at the
7 corporate level to look at what would the impact be from
8 switching to IFRS as a total company. We are still fairly
9 early in that process. At this point, we have not engaged
10 the audit committee. That would be coming up once we get a
11 little bit further down the project path to figure out what
12 the plan might look like.

13 While we are fairly early, we do realize and
14 anticipate it will be a very significant project for the
15 company.

16 I think the most significant items that we will
17 have to take care of, obviously, the first big issue is to
18 identify all of the U.S. GAAP/IFRS differences. That in and
19 of itself is a significant project.

20 Once we have done that, we have to develop new
21 policies and processes, do new system designs and so forth to
22 handle the new accounting standards, the educational effort,
23 to educate not only internal finance management, but internal
24 line management because their own results will be flipped
25 over to IFRS, and then educating our investors and analysts

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1 and so forth.

2 Finally, just the execution itself. Timing is
3 still unclear. I think it will be a minimum two to three
4 year project for us, once we really kick it off to where we
5 are able to actually execute that.

6 It will be fairly costly. Again, not sure what it
7 will be at this point, but it will certainly be multimillion
8 dollars for a company like us.

9 Importantly, I think, the companies that would be
10 more likely to early adopt would be those who would benefit
11 most from going with IFRS, companies that have global
12 operations and can use this as a simplification and
13 operational efficiency, as well as companies that compete
14 against global competitors who happen to be IFRS filers
15 already.

16 I would expect once those companies go through it
17 there would be a bit of a road map and best practices
18 developed, so that hopefully as those who adopt later going
19 into their projects, they could learn and bring more
20 efficiencies into the project and so forth and bring the cost
21 down.

22 MR. CARNALL: Thank you. Peggy?

23 MS. SMYTH: Thank you very much. Just a little bit
24 about United Technologies, so you understand why we are where
25 we are in this process.

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1 United Technologies is a \$50 billion company that
2 specializes in business services in the aerospace industry.
3 We have 186 offices around the world and over 60 percent of
4 our revenues are internationally driven.

5 IFRS is an important topic for our company. A
6 couple of months ago, myself and our CFO agreed that this
7 would be something that we really needed to be moving forward
8 on and fairly aggressively.

9 As Mick said, many of our competitors who are
10 internationally based are already on IFRS.

11 What we did is we have liaised with many of the
12 large European companies that have already switched to IFRS
13 to understand what best practices were in the transition
14 process, and how to get the right people on board to make it
15 a very successful effort.

16 The feedback that we heard is don't view this as an
17 accounting reconciliation exercise. View this really as a
18 project and treat it as you would any other major project in
19 the company. That's what we did. It's really all about
20 training and communication.

21 We first got on board all of the senior leaders of
22 United Technologies, the presidents of our six businesses, as
23 well as our CEO and president of our global company, to get
24 their endorsements for moving forward on IFRS.

25 We then moved down the chain and we had all of our

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1 CFOs agree that this was a good idea to move forward, and
2 then we got the controller group to agree. We went to the
3 audit committee and the audit committee approved us to move
4 forward on a high level project to assess what the
5 implications of IFRS would mean to United Technologies from a
6 balance sheet, P&L, cash flow statement, as well as expanded
7 disclosures.

8 We started this project about two months ago. We
9 have organized it at the corporate level. Actually, we used
10 the same project leader who ran the Sarbanes-Oxley compliance
11 program for UTC. He did such a great job on that, he knows
12 nothing about IFRS, but he's a great project leader and knows
13 how to get things done in our company, and we asked him to
14 lead our effort on IFRS, and we are supplementing him with
15 people who are knowledgeable on IFRS. We are in the process
16 of hiring several people, as well as working with our
17 accounting firm, PriceWaterhouse, who has been helping us.

18 We have created a project team at Corporate, and
19 then each of our business units has representation on the
20 team, and we are in the process now of deciding what
21 elections we would make if we were to adopt IFRS in terms of
22 say the accumulation adjustment and all the various elections
23 you can make on the initial adoption, as well as making some
24 high level decisions on some of the key differences between
25 U.S. GAAP and IFRS for United Technologies.

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1 In terms of when we think we would be able to
2 report in IFRS, we just had that conversation on Friday. We
3 had a team meeting. We think very safely we would be able to
4 do it in 2010. United Technologies likes to be a leader in
5 whatever it does, and aggressively, we could push to be there
6 in 2009, if we pushed it.

7 A couple of things from a tactical perspective that
8 we think we would need to get addressed in order to make this
9 truly a home run for us. The first is from a tax
10 perspective.

11 Some of our companies use the LIFO method of
12 accounting. We do not feel like writing the IRS a very big
13 check if we are to switch to IFRS and have to come off of
14 LIFO accounting.

15 We see the need for alignment in tax reporting with
16 IFRS. That would truly make this a home run if we could
17 report using just IFRS for both the basis for our tax
18 reporting as well as for financial reporting, and would make
19 it even more cost beneficial if we could get the other
20 foreign companies to also use IFRS as the basis for their tax
21 reporting. Then we could drive huge cost savings and
22 efficiencies throughout our global company.

23 Another area that will be a little bit of a
24 sticking point for us is XPRL. Chairman Cox knows that
25 United Technologies has been in the forefront of the XPRL

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1 initiative. We have just completed our conversion of all our
2 data in U.S. GAAP using the new taxonomy.

3 Our concern would be, and we talked about this at
4 our team meeting on Friday, if XPRL is mandated in 2009, and
5 let's say we were to start filing IFRS in 2009, and right
6 now, XPRL is not aligned for U.S. GAAP and IFRS, what
7 position would that put us in.

8 Could we be in a position of non-compliance with
9 the requirements for the XPRL filing if we had to file in
10 IFRS.

11 CHAIRMAN COX: Since it is not likely that issue is
12 going to get picked up by the other panelists, let me just
13 ask quickly. Is there an issue with using the IFRS taxonomy?

14 MS. SMYTH: No, it's just that it's a little bit
15 different than U.S. GAAP. We would have to re-map our data.
16 It just takes time.

17 CHAIRMAN COX: It is just an extra step in the
18 project?

19 MS. SMYTH: That is right. We are concerned about
20 timing, too, in terms of the deadlines for when the XPRL
21 financial statements would be due. Would they be due say in
22 30 days in IFRS, if we were to become an IFRS filer. That's
23 the concern.

24 MR. CARNALL: Arleen, do you have a question or an
25 observation?

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1 MS. THOMAS: If I could take a follow up to XPRL
2 real quickly. Peggy mentioned it as a tactical issue, but I
3 believe there is a strategical issue buried in there. That
4 is you mentioned, Peggy, it's all about communication, and
5 XPRL is also about communication.

6 As you all know, given the generosity and your
7 leadership, Chairman Cox, the IASB has just completed their
8 state-of-art platform along with their taxonomy.

9 As I travel around the world, I do hear a lot of
10 anti-American/anti-SEC type sentiment. It almost seems like
11 if we have created something new here, it is automatically
12 bad.

13 I think the platform and other things, maybe even
14 some of our standards, automatically are tainted just because
15 we created them.

16 I think from a strategic point of view, we need to
17 figure out how to manage that barrier and remove that
18 barrier. There are going to be situations, and I think the
19 platform might be an example of that, where we have a
20 state-of-the-art platform, and if we could allow IASB or
21 their foundation to use that platform, that will help in the
22 inter-operability of the taxonomies so you as a preparer can
23 just pull down two different taxonomies but have the same
24 platform. That is where efficiency comes in.

25 MR. CARNALL: I have a follow up question. You

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1 briefly mentioned looking to using what Europe has done in
2 terms of their conversion process. Has that been helpful and
3 how have you actually utilized and benefitted from Europe
4 doing this a few years ago?

5 MS. SMYTH: We figured why re-invent the wheel. We
6 have been talking with many companies that have already had
7 to make the transition. The one thing that they all pointed
8 out to us is you are very lucky because it will be much
9 easier for U.S. companies to convert to IFRS than it was for
10 many of the European companies to do so.

11 If you take a step back in time, in 2002 is when
12 the mandate came out that European companies would have to be
13 IFRS filers by 2005. The IASB didn't actually complete the
14 final rules that had to be implemented until March of 2004.
15 They had basically nine months before they had to get
16 implemented.

17 We are not in that position. The standards are not
18 in the process of construction right now. That is one thing
19 that will make it much easier for us.

20 We also asked about their process and how they
21 organized their teams and most importantly, how did they
22 communicate it to their investors.

23 Pretty much all of them followed the
24 recommendations of the Committee of European Securities
25 Regulators, CESR, which came out in 2003 with best practices

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1 for companies to convert their financial statements into IFRS
2 so they remained compliant as well as for how to communicate
3 those changes, the results of changing from say U.K. GAAP or
4 German GAAP into IFRS to their investors.

5 What they had recommended was first for companies
6 to get an early start on the process because in order to be
7 able to communicate to your investors the changes, you need
8 to know what those changes are and begin to start the
9 process.

10 They recommended a phased approach. In 2003, most
11 companies disclosed just in narrative words what the effect
12 would be in their 2003 financial statements. In 2004
13 financial statements, they quantified what the impact was in
14 terms of switching.

15 Starting in the first quarter, if they had a
16 quarterly filing requirement, the first quarter of 2005, they
17 were on IFRS with no U.S. GAAP financials.

18 We have learned how they organized themselves and
19 then how they went about communicating it to their investors.
20 That is what we are using to come up with our plan.

21 MR. HEWITT: We will move onto another subject
22 matter with Danita and Gary. Europe made a decision in 2002,
23 as Peggy just mentioned, to require IFRS starting in 2005.
24 How long would it take for your clients to be ready to report
25 under IFRS at the same level or quality and frequency as they

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1 currently do under U.S. GAAP?

2 In responding, I would like you to consider two
3 different perspectives, maybe three. If IFRS is optional,
4 number one. Two, if it's required, or maybe it goes from
5 optional to required status.

6 Danita, would you mind starting?

7 MS. OSTLING: Thanks. I think much like what Peggy
8 said and much like what we have observed the experience in
9 Europe being, it took two/two and a half years for the
10 biggest companies to be ready to report. I think that is
11 pretty instructional for what companies would experience here
12 as well.

13 However, I think there is one big difference, and
14 then I'll move on to some of the other things that I think
15 need to get done before companies could successfully convert.

16 In Europe, if you looked at the GAAP, the various
17 bodies of GAAP that companies were applying pre-IFRS, and you
18 compared those to IFRS, the differences were very significant
19 in most cases, and very much more significant than what the
20 differences are between U.S. and IFRS.

21 If European companies were able to successfully
22 convert in two or three years, they knew what was coming
23 before the July 2002 announcement, the European Commission
24 had been talking about it for quite some time, so it wasn't a
25 surprise, but most companies still hadn't done a lot to get

1 ready. CESR's recommendations didn't come out until about
2 that time.

3 The point is that they were able to convert. I see
4 no reason why U.S. companies wouldn't be able to convert in a
5 similar time period.

6 I think one of the bigger issues is the legal and
7 the regulatory environment that we have here in the U.S., and
8 whether that legal and regulatory environment is conducive to
9 I'll say more principles based but what I mean by more
10 principles based is a system of accounting and financial
11 reporting that has fewer bright lines, less implementation
12 guidance, less application guidance.

13 I think the time that is spent between now and the
14 date on which companies would convert, and I favor a date
15 certain, the Commission is establishing a date certain on
16 which companies would convert, but I think the time needs to
17 be spent in working through the various legal and regulatory
18 issues, and also for the IASB to continue the financial
19 reporting improvements.

20 I am all for continued convergence, the FASB and
21 the IASB working together. I believe if the Commission were
22 to establish a date, I think that will give the needed boost
23 or increase the urgency for the rest of these actions to be
24 taken.

25 We can look at the SEC's Reporting Committee. I

1 think that is useful. I think we should look carefully at
2 what comes out of that and how we can implement. Same thing
3 with the Treasury's Committee.

4 I think those will both be instructive and hope
5 that we will see some good recommendations that the
6 Commission and Congress can be acting on to help us to get to
7 an environment that will allow a successful transition, and
8 believe that establishing a date will help to create that
9 urgency or the impetus.

10 MR. HEWITT: Thank you. Gary?

11 MR. ILLIANO: It was very interesting to me to be
12 speaking with our European affiliates on this matter. It
13 gave me a little bit of a perspective of how they viewed us
14 coming up on potentially going through this experience versus
15 having gone through it already themselves.

16 What they reported back to me was that the
17 convergence to IFRS was fairly traumatic, but with good
18 results. The companies -- we don't audit United Technologies
19 or the really big companies. We are more a middle market
20 focus.

21 Our companies were a little bit late to engage,
22 despite our begging and pleading to try to get them to focus
23 on this. Eventually, it got done.

24 The Financial Reporting Review Panel report and the
25 Institute of Chartered Accountants in England and Wales study

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1 of the first year application, I think, showed that the
2 result was pretty good.

3 Disclosures were not the best. Disclosures became
4 a focus for our people as they moved into 2006.

5 Some of the areas that they struggled with in
6 Europe are probably not going to be anywhere near as
7 problematic for us.

8 For example, in the U.K., one of the partners
9 reported back to me that the three most complicated areas for
10 the preparers to understand were financial instruments,
11 income taxes, and share based payments. This was because the
12 guidance in the U.K. was so much different than the guidance
13 in IFRS.

14 For the preparers in the U.K., not only did they
15 have different rules to follow, but first, they really had to
16 learn the language. They had to understand things like
17 temporary differences, derivatives, and available for sale
18 assets. They had to more rigorously search for intangibles
19 in business combinations.

20 In the U.S., these are not new terms for us. These
21 are not new items that we have to consider. Just having the
22 vocabulary puts us a step ahead in understanding the
23 differences between the two systems.

24 One of the partners at our U.K. affiliate even said
25 that if you compare it to what they went through, convergence

1 for us would be a walk in the park. He said that.

2 MR. HEWITT: Danita? Then Jim.

3 MS. OSTLING: I probably wouldn't characterize it
4 as a "walk in the park." I understand some of my European
5 colleagues would say that. I was in Europe, in London,
6 during the time that European companies were converting.

7 I just wanted to come back to something that Peggy
8 said. I think it is so important. Companies have to view
9 this as not just an accounting exercise. Fundamentally, we
10 are converting or we would be converting from one system of
11 accounting principles and one accounting framework to another
12 set.

13 Companies need to approach it much more broadly
14 than that. The project team has to be much broader. It is
15 about so much more than an accounting exercise. We have to
16 consider IT systems, communications with investors,
17 compensation systems that might be linked to reported
18 results, and all the rest of it.

19 There is a whole number of issues that companies
20 need to go through as they are working through the
21 conversion, and I think getting a good project team in place,
22 looking at the recommendations of CESR I think could be very
23 instructive for all of us. They were good recommendations.

24 I think the companies that followed them, the
25 companies that really did get an early jump on it and even

1 reported using a parallel system or had two parallel systems
2 running, one under whatever their current GAAP was, because
3 they obviously were still reporting under GAAP, but then one
4 under IFRS so they could look to see are the differences what
5 we expect the differences to be, are they different, if so,
6 what might be wrong here. How might we explain this.

7 And to be absolutely ready to go talk to their
8 analysts and their other users early in the process, a
9 critical success factor.

10 MR. HEWITT: Thank you. Jim?

11 MR. GLERUM: I did a little informal survey myself,
12 just talking to some of my own clients. I cover some larger
13 cap guys and a large number of smaller cap companies. Just
14 to follow up on what Danita and Gary said, as you think about
15 UTX and P&G, they will get there. These are really big
16 companies, a lot of resources.

17 The concern I have is much more with the smaller
18 domestic corporation that maybe is not quite as multinational
19 and probably the type of company that Gary's firm spends a
20 lot of time with.

21 These firms, as I talk to them at audit committee
22 meetings, sure, they are getting up on IFRS, they are getting
23 knowledgeable. It's going slowly. If P&G and UTX are only a
24 couple of months into this, they are in the early stages,
25 imagine what the smaller U.S. corporation is.

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1 I think we all need to be thoughtful and careful of
2 where they stand in this. I think as either Gary or Peggy
3 mentioned -- Mick or Peggy mentioned -- there are real
4 benefits to having one single standard. There are some cost
5 benefits over time as these companies adopt one standard.

6 The smaller U.S. company doesn't see those
7 benefits. They are going to see what Danita mentioned as the
8 difficulties of a principles based accounting policy, and the
9 potential risks associated with which principles they are
10 actually abiding by.

11 I think this is potentially riskier for the smaller
12 U.S. company. I don't see necessarily that the benefits are
13 there. They are the ones that I think can get lost in these
14 developments as they come over time.

15 MR. HEWITT: I have a follow up question with
16 Danita, something that Jim raised. As you know in the SEC,
17 we have many small mid-cap sized companies who do not really
18 have multi-international divisions or subsidiaries and so
19 forth.

20 You mentioned a time certain that you think.
21 Fitting all that in with the small mid-cap companies and
22 preparing them for the time certain, how much time do you
23 think is needed to accommodate all these registrants?

24 MS. OSTLING: Nothing like putting me on the spot.

25 In our comment letter on the concept release, we

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1 weren't so presumptuous as to suggest a date. I think
2 realistically, if you look out, 2010 sounds soon to me.
3 2012/2013 sounds about right, if I were forced to put a date
4 on it.

5 One of the other important points, and I'm sure Bob
6 Herz will talk to this later on the second panel, the
7 convergence work that the boards are undertaking I think is
8 so important to alleviating some of the concerns of those
9 smaller companies because as the two bodies of GAAP become
10 closer, as the differences are narrowed, as we work to get a
11 common conceptual framework, revenue recognition is a project
12 that is on both boards' agenda's now. Leasing is coming on.

13 As those differences are narrowed, then the leap,
14 if you will, for all companies, the smaller cap and the
15 larger companies, is going to be less.

16 The closer we get together, the less of an effort
17 convergence is going to be. There are still hundreds,
18 probably thousands of differences in detail. Going through
19 that careful analysis, as Mick talked about, looking at what
20 is an impact, going through an impact analysis, what are the
21 differences, how significant are they.

22 Of course, that has to be done. That would have to
23 be done no matter how close we are to converging. I still
24 fundamentally believe that convergence will help us along
25 that path.

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1 MR. HEWITT: Thank you. Peggy?

2 MS. SMYTH: Thank you. I was at a meeting a few
3 weeks ago with one of the IASB members. In terms of a date,
4 he threw out 2011. The reason why he threw out 2011 as a
5 year when it might be a good idea to start transitioning to
6 IFRS here in the U.S. is that year is also the year when
7 China, India, Japan and Canada are transitioning.

8 He thought that would be less disruptive to the
9 markets if we could have the U.S. also transition in the same
10 time period, as well as similar to what the IASB did in
11 Europe, where they put a moratorium on implementing new
12 standards, from 2005 to 2009, to make it easier for the
13 European companies to comply with IFRS, they could consider
14 doing something similar as well, if all countries were coming
15 together in one year or several major countries were coming
16 together in one year to implement IFRS.

17 MR. HEWITT: Gary?

18 MR. ILLIANO: The way we analyzed this was we said
19 well, you have sort of a continuum of choices here. You can
20 do nothing in the present or at the other extreme, you can
21 mandate IFRS tomorrow.

22 If you do nothing in the present, that has
23 advantages in allowing convergence to move forward, it has
24 advantages in allowing people to be developing and getting
25 ready and training, so on and so forth.

1 It also has the disadvantage of falling behind
2 because so much of the world is moving forward with IFRS on
3 the way to one set of standards.

4 On the other extreme, if you say well, we are going
5 to implement IFRS for everybody tomorrow, that would probably
6 get done, although it would be at the expense of a lot of
7 paying people, redirecting resources at the expense of other
8 things. You would have shifts in market share and so on and
9 so forth.

10 Probably somewhere in the middle of all this is the
11 answer, and we think that is to have a voluntary program for
12 the willing, for those companies that do their own
13 cost/benefit analysis and conclude that it is cost beneficial
14 for them to do that, but yet at the same time, there ought to
15 be a mandatory date for everybody to switch to IFRS because
16 without that, you won't have people focused in on the issue.
17 They won't direct their resources to address the issues that
18 are so important.

19 We also believe that probably we ought to be
20 talking about whether there should be a mandatory
21 implementation date, but with some kind of phase in,
22 depending on the size of the company, because it may be
23 easier for larger companies to address this issue sooner and
24 the smaller companies will not perceive it as being as
25 beneficial and will not want to divert their previous

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1 resources to making this change.

2 MR. HEWITT: Thank you. Ross?

3 MR. JENNINGS: To echo Danita's point about giving
4 the convergence process a little bit more of a chance to
5 work, I have the sense that the two boards, the FASB and the
6 IASB, are not only moving together but are also moving
7 forward.

8 If they are given a little bit more time, I think
9 the convergence for companies will be a lot easier because
10 the differences will be less.

11 MR. HEWITT: Thank you. Any other comments on this
12 subject?

13 MS. OSTLING: I just wanted to say that I agree
14 with what Gary said about companies having the option as an
15 intermediate step along the way.

16 I think if we are looking at this as a journey of
17 getting toward the ultimate objective of a single set of high
18 quality standards, that Chairman Cox said was everybody's
19 view, and I very much support that view, we look at the
20 elimination of the FPI reconciliation as a step along that
21 journey, I think we can look at U.S. companies having the
22 option as a step along that journey, very much, I think,
23 would be a company specific analysis and decision.

24 As Peggy said, if you have a company that has most
25 of its operations outside the U.S., in places that either

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1 permit or require IFRS or in a lot of places, even though
2 there are local standards, it could be that you could report
3 under IFRS and still be in compliance with whatever those
4 requirements are.

5 There are real economies to be gained here. I
6 think that will be a very company specific decision. That
7 would be instructive, as Gary said, in developing some best
8 practices for what we would do with the broader based
9 conversion later on.

10 MR. HEWITT: Commissioner Atkins?

11 COMMISSIONER ATKINS: I just wanted to bring up one
12 thing that we heard last week a fair amount about, and that's
13 the training here in the United States for folks in the
14 field, whether they be at accounting firms or also
15 importantly in companies and coming along in schools who are
16 going to be coming out in the work force.

17 That has to get up to speed. I was wondering when
18 we are talking about a date certain, if that would be a
19 realistic thing on the agenda, how are we going to put that
20 into effect in such a short time table?

21 MR. HEWITT: Thank you, Commissioner Atkins. That
22 happens to be our next subject.

23 MR. CARNALL: That was the perfect set up. Arleen
24 and Ross, if I could direct this question to you.

25 As the Commissioner was saying, education and

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1 training in the accounting profession has been a commonly
2 cited transition issue in should IFRS be allowed in the U.S.

3 I'd like to ask several questions from two
4 different perspectives. First, education and college and the
5 CPA exam, and second, continuing education for accountants
6 that are currently practicing.

7 In responding to these questions, it would be
8 particularly beneficial if you could share any knowledge that
9 you may have on how these areas were addressed in Europe.

10 Currently, IFRS is taught very little in college,
11 if at all, and it is not tested on the uniform CPA exam at
12 present.

13 I have three different questions if you could
14 address. First, should IFRS be required to be part of the
15 CPA exam. If you could address if it depends on whether IFRS
16 is voluntarily used in the U.S. or required.

17 Second, what can be done to encourage more focus on
18 IFRS in school, and third, from an educational perspective,
19 what do you see as the main challenges to switching to IFRS
20 and how could those difficulties be overcome.

21 Arleen, if you could address those first.

22 MS. THOMAS: Sure. I'm going to start with the CPA
23 exam. That is a very exciting topic that people like to hear
24 about.

25 The uniform CPA exam is as we all know a tool, it

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1 is one of three tools that are used by state boards of
2 accountancy to assess the ability of entry level candidates
3 to protect the public interest through their demonstration of
4 knowledge in financial accounting, auditing, regulatory
5 issues, and business environment and concepts.

6 The AICPA is very proud to develop and grade that
7 exam.

8 There are two key phrases in that statement. The
9 first is "entry level candidates." The second is "to protect
10 the public interest."

11 To answer the question of when should the CPA exam
12 have international financial reporting standards included in
13 its test, the answer is quite simple, and that is when IFRS
14 becomes GAAP here in the United States.

15 Or when IFRS has a significant impact on the work
16 of entry level practitioners, whichever is first.

17 As we all know, we take the exam right after
18 school. It gauges demonstration of our knowledge at that
19 point, not ten years down the road. Thank goodness for that.

20 I would tell you it will take us approximately two
21 years to get questions into the CPA exam. One of our major
22 challenges will be to find individuals to write those
23 questions.

24 Today, we rely on about 50 to 100 CPAs across the
25 United States who write our questions, and then they go

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1 through a very, very complicated and in depth quality control
2 system.

3 We will probably need to hold boot camps, to bring
4 up a large number of people up to speed on international
5 accounting on a very short term basis.

6 It's important to note that in the meantime, it's
7 not like the exam is just standing still. If you think about
8 the issuance of FAS-160 and 141R that just happened in the
9 last couple of weeks, we are now in the process of retiring
10 our old bus com questions and writing new questions that will
11 be testing the candidate's knowledge on 160 and 141R.

12 Granted, that is to the core standards, not
13 necessarily the differences between the standard and IFRS,
14 but as the standards themselves narrow the differences, the
15 exam itself will narrow as well.

16 It is also important to note that the exam today
17 does test both financial accounting standards, commercial
18 standards, and governmental. Likewise, it tests auditing
19 standards issued by the IASB and auditing standards issued by
20 the PCAOB.

21 It is primed to set up and test multiple sorts of
22 standards. Whether or not you go with the option or go with
23 the mandated, a date certain, the exam will be able to test
24 both skill sets.

25 I think an interesting challenge to the exam will

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1 be the nature of the international standards and everybody
2 has touted the principle based standard.

3 One of the things that we are starting to do is
4 research on those kinds of standards and writing questions
5 for them, just to see how different the experience will be
6 for the candidate, so that we will have kind of a test case
7 or a test drive under our belt before the Commission takes
8 whatever actions it so desires.

9 MR. JENNINGS: I'd say that higher education is at
10 a pretty early stage on this, and there is important
11 interaction with the exam. We don't teach the exam. Because
12 of the complexity of current standards in the United States,
13 our teaching tends to be at a fairly high and conceptual
14 level.

15 We think we are trying to prepare students to react
16 to different GAAPs and changes in GAAPs as they occur
17 throughout their career, because they are likely to change
18 quite a bit.

19 At the same time, we do get down to levels of
20 details where there are differences between U.S. GAAP and
21 international standards, and because it is difficult to find
22 sufficient classroom time to cover all the things we need to
23 already, there would be a natural dilution of the educational
24 process if we were trying to cover two competing GAAPs
25 instead of just the one we are dealing with right now.

1 In addition, as an important interaction between
2 the exam and educational requirements, each state has its own
3 requirements for what education the student has to acquire
4 before they can sit for the exam.

5 There are some states that limit what counts as
6 accounting classes to what's on the exam. I'm from one of
7 those states.

8 Currently, we don't have a class in international
9 accounting standards because such a class would not qualify
10 for educational purposes, for sitting for the exam.

11 Our students get that kind of exposure when they do
12 study abroad programs. We have two study abroad programs in
13 the Summer that are very heavily subscribed and they do get
14 international accounting exposure in those places.

15 I would say in order for us to sort of gear up for
16 this, there is a lot of professor training that has to be
17 done. The professors themselves are not that familiar with
18 IFRS and the differences between IFRS and U.S. GAAP.

19 In addition, there is an important lag in the
20 textbooks. In preparing to come here today, I consulted with
21 some colleagues in England and France, Australia and
22 Portugal, and they are telling me that it is very difficult
23 still finding good IFRS textbooks in their countries,
24 including in English, that they use U.S. GAAP textbooks and
25 make adaptations, and corroborating what I said earlier, that

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1 it has forced their teaching to a higher more conceptual
2 level, which has its benefits, but also it tends to push more
3 detailed training down to future employers rather than taking
4 place in the university.

5 MR. CARNALL: Thank you. As a short follow up
6 question, basically it relates to the need to actually wait
7 until the Commission does anything to implement IFRS, for
8 both the CPA exam as well as teaching it in college.

9 Given that IFRS is used in 100 countries around the
10 world, by some of the largest corporations in the world, I
11 dare say probably half of the global Fortune 500 is using
12 IFRS, a large portion of those companies have subsidiaries in
13 the U.S., so it seems that we have a large base of students
14 and practitioners that are currently using IFRS in our
15 country.

16 I was just wondering should we be testing and
17 teaching IFRS today in schools.

18 MR. JENNINGS: I would say that independent of this
19 effort here, we have already felt that pressure. We interact
20 with local CPA practitioners and local offices in Dallas and
21 Houston quite a bit, and they are getting these issues in
22 their practices much more often.

23 We feel the importance. We have been talking about
24 how to integrate IFRS into our curriculum, even apart from
25 whether or when it may become the standards for U.S.

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1 registrants.

2 Beyond that, I think how the new requirement is
3 implemented will make a big difference in how hard we feel
4 the stick up our back to make movements.

5 I think that's true not only of us but at every
6 other level of participant in the transition. I'm more in
7 favor of a date certain far enough in the future to let the
8 convergence process keep working, to allow people time to
9 react, but knowing that there will be a date when they have
10 to have reacted by then.

11 I think that would be the most efficient path for
12 higher education.

13 MS. SMYTH: Just to your question, we look to
14 whether or not IFRS becomes voluntary or mandatory, having
15 the financial team at UTC around the world have a better
16 understanding of IFRS is really important because all of our
17 growth is happening or a lot of the growth is happening
18 internationally in the countries where IFRS is either in
19 place right now or will be soon.

20 As well as the fact that most of our acquisitions
21 are international acquisitions and many of the companies that
22 we are either evaluating for purchasing or we have decided to
23 purchase are using IFRS.

24 It's just good to know.

25 MR. CARNALL: Arleen?

1 MS. THOMAS: In preparation for the AICPA's comment
2 letter that it submitted on the concept release, I had an
3 opportunity to talk with a variety of professors from very,
4 very small institutions to very large ones.

5 Every one of them without a doubt already had an
6 elective course. Granted, it wasn't on the top three courses
7 anybody attended, but at least the course was listed, which I
8 thought was really important as we thought about going to
9 IFRS, the fact that the course itself would exist, and once
10 the demand, the buzz, the excitement came, candidates had
11 that opportunity.

12 Also, I found it interesting. I talked to one of
13 the major textbook authors. He led me to believe that IFRS
14 textbook is sitting on his shelf and the fact that the market
15 will drive those textbook authors to get that document out
16 there pretty fast.

17 I'd be willing to bet it would be under a year that
18 those textbooks would be out there with IFRS. The market
19 will just have that kind of pressure.

20 It will be interesting to see what actually
21 happens. I just share that experience with you.

22 Commissioner Atkins, to your comment about
23 professional development, since Europe has already gone,
24 there is a whole lot to learn from ICAW and others. They
25 already have the courses. We have actually been in

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1 conversations with them to find out where they got their
2 courses from, did they develop them, were there other
3 commercial providers that provided the information.

4 I think in the United States we can learn a lot
5 from what happened in Europe and what is happening in Canada.
6 We don't necessarily have to re-create the wheel.

7 I think the services, the products, the courses
8 will be available. We just need to get them here to the
9 United States.

10 MR. CARNALL: Thank you. Moving on, if we can look
11 forward -- I'm sorry. Mick?

12 MR. HOMAN: I just wanted to make one other point.
13 I think with respect to the education market forces will be
14 pretty effective at creating a big pull for the education.

15 I think if you allow the option and people actually
16 start moving, that will create a real suction. Companies
17 that want to move will want their auditors to be up to speed.
18 They will be looking for college students that are trained.

19 I think there are some excellent educational tools
20 out there already. I think the larger public accounting
21 firms have already published some very good U.S. GAAP/IFRS
22 manuals, some that start at a very top level that are good
23 for board/audit committee level, some that really drill down
24 into some of the big differences.

25 I think a lot of the material already exists. I

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1 think it probably will take a bit longer for it to get
2 through the universities. I think allowing the option to go
3 now would really create a big pull for those and would really
4 allow the resources necessary.

5 MR. CARNALL: If we could move on in terms of the
6 educational process, while the classroom training is
7 certainly very important, most of the students today will not
8 be signing audit reports for at least ten years, and probably
9 for the larger companies, at least 20 years.

10 If the next 20 years are anything like the past 20
11 years, we can certainly expect a lot of change in accounting
12 standards.

13 As we were talking about before we started this
14 panel, I think most of us, the only standards that are still
15 in existence when we were in school are FAS-5 and FAS-13.
16 Almost everything else has been superseded or totally
17 revised.

18 Taking that into context, if people are signing
19 audit reports under IFRS, do you think there should be a
20 minimum requirement, some form of minimum IFRS training, such
21 as what has to be done for ethics, before you can sign a
22 report under IFRS. If so, how long would that take to
23 implement, and should there be a test at the completion of
24 any minimum training to demonstrate your knowledge of IFRS,
25 to be able to sign an audit report?

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1 Arleen?

2 MS. THOMAS: As you mentioned, we were talking and
3 chuckling about Statement 13 and Statement 5 before the
4 meeting. This profession is just set up to continually
5 learn.

6 If I look back, we have all learned a new set of
7 how to account for income taxes. We are all still learning.
8 Everybody is progressing in that way.

9 I really do just look at IFRS in that same light.
10 We will learn it. We will bring it into our skill set. As a
11 profession, we have to have competency and we understand that
12 through our Code of Conduct.

13 I would say no. Let's just let the profession do
14 what it does well, which is learn new standards, new skills,
15 and apply them.

16 I know in Europe, they did more of what I'm going
17 to call a certificate of knowledge or a credential. In other
18 words, if you wanted to hold out to your employer that you
19 knew IFRS, you could go through a training course and take a
20 test at the end, but once again, it was market driven.

21 Individuals went to it if they wanted to
22 demonstrate their knowledge in a concrete way through an
23 independent process, and from everything that I can tell,
24 that seemed to work quite well for them.

25 MR. CARNALL: Ross?

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1 MR. JENNINGS: I think I would agree with all that
2 and I would say having a separate certificate is not really
3 consistent with the idea of convergence.

4 If the objective is to have complete convergence at
5 some point, then I think the IFRS knowledge should be
6 integrated into current certification requirements.

7 MR. CARNALL: Danita?

8 MS. OSTLING: I agree with that as well. I think
9 we all deal with the introduction of complex accounting
10 standards throughout our careers. That is just part of what
11 we do.

12 We have learned share based premiums. We have
13 learned income taxes and fair value accounting and all the
14 rest of it. I think that in the same way, we would learn or
15 we will learn IFRS.

16 Back to something you were asking earlier, Wayne,
17 or commenting on. The number of U.S. accountants right now
18 or CPAs that are working on subsidiary work of foreign
19 companies who use IFRS, there are a number.

20 Internally in our firm as well as in all the large
21 firms, we have a process whereby we make sure those people go
22 through appropriate training and education, and we have an
23 internal accreditation process where we make sure they have
24 gone through that before they are working on these jobs.

25 We would be doing the same thing. Each state has a

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1 CPE requirement that we all have to meet every year, a
2 certain number of hours have to be technical. This is just
3 more of that. I think that is the way that we will learn.
4 We will learn on the job the same way that we learned when
5 the FASB issues a new standard today.

6 One of the big debates that we have about how to
7 teach IFRS in the U.S. is given that our bodies of literature
8 are so similar, the question is do you teach the differences.
9 Assuming you know all of this U.S. GAAP and then teach the
10 differences to IFRS or do you teach IFRS pure.

11 In Europe, they taught more of what I'll call IFRS
12 pure. I'm personally not convinced that's the best way in
13 the U.S. given our similarities.

14 The other difference in Europe is that most
15 university students in Europe don't study accounting. We
16 have all hired people that studied history or geography or
17 whatever they studied. Then they learn accounting as they
18 come to work for the firms, and they go through an
19 examination process whereby that is their study period.

20 IFRS is no different there. That is a very
21 different system from what we have in the U.S. I completely
22 support integrating into the universities but as we spoke
23 earlier and as Ross is commenting, so much of the teaching is
24 at the conceptual level. It's accounting.

25 Yes, there are impairments, for example. You would

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1 have to teach the difference because that is so fundamental,
2 but there are other areas where in an university course or
3 even in the CPA exam, you would never be even testing or
4 teaching to that level of granular detail.

5 MR. CARNALL: Gary?

6 MR. ILLIANO: I agree. One of the things we looked
7 at when trying to develop training was whether we should, as
8 she said, teach from the U.S. and focus on the differences.

9 We needed a starting point. We did elect to go
10 that route. We are still evaluating, but we think that is
11 the appropriate way to do this in the U.S.

12 We coordinated with some academics who are on
13 sabbatical. One in particular helped us develop some
14 training and as we speak today, he's giving the training in
15 Chicago to a group of our managers. We think that is a good
16 way to cross fertilize with the academic community, and we
17 hope to continue to do that.

18 One thing that I will tell you is I'm not really
19 worried about the new people coming up. I'm worried about
20 the people that have been doing this for a long time. When
21 we gave the training a couple of weeks ago, we went around
22 the room, as you typically do in training, and we said what's
23 your name, where are you from, why are you taking this IFRS
24 course.

25 We got to about the middle of the room and this

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1 manager named Richard said well, I realize I'm not retiring
2 in the next two years, so I better learn this stuff.

3 We believe that it's the people that have been
4 doing this for a long time that are going to be more
5 resistant to change than the people coming up, sort of like
6 computers, you know. If I need something on my computer, I
7 call my son. It's the same kind of idea.

8 MR. CARNALL: Peggy?

9 MS. SMYTH: I was going to say I was one of those
10 liberal arts majors that Danita was referring to. I remember
11 my first day in public accounting where it seemed like
12 everybody was speaking another language. Debits and credits
13 and impairments. Don't worry, assets are to the window and
14 liabilities are to the door.

15 I went to NYU before they built the new school and
16 we had no windows in our classrooms. That really didn't help
17 me very much.

18 You learn, as Danita said. It is really on the job
19 training. I went on to be in public accounting for 20 years
20 and was a partner for ten of those years in two of the very
21 large firms.

22 I have complete confidence that the firms would not
23 have an engagement partner signing an IFRS set of financial
24 statements if that person was not qualified. I don't think
25 we need an additional certification or test.

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1 MR. HEWITT: We might still stay on this subject
2 and Danita and Gary might help us. We talk about academics
3 are very important, but as some of you mentioned, as I
4 learned the hard way, auditing and accounting is kind of a
5 hands on experience, you learn as you do it.

6 I'm curious how your colleagues in Europe trained
7 themselves for the adoption and implementation of IFRS. I
8 have three or four other related questions. You can pick and
9 choose among them.

10 How long would it take and what can we learn from
11 Europe in this regard, and how would you deal with required
12 training re-tooling for your existing staff. You mentioned
13 that briefly.

14 In responding, please address this from the
15 perspective of both the scenario of the use of IFRS as
16 optional versus being required, and then to what extent are
17 your firms ready to audit financial statements prepared under
18 IFRS in the U.S. here, especially multinational clients.

19 I assume you have a number of clients for which you
20 are preparing interoffice reports on IFRS financial
21 statements for consolidation with a parent company reporting
22 under IFRS. Many of these companies may be SEC registrants.

23 How has this impacted the U.S. firms' knowledge
24 base of IFRS, and then just in broad terms, how or would your
25 firms differ their course of action regarding training under

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1 IFRS, optional versus required.

2 Danita?

3 MS. OSTLING: We have talked about some of this
4 already, but certainly yes, we do have people in the U.S.
5 that are trained. The technical training focuses primarily
6 on those individuals who are serving the subsidiaries of
7 European or other companies that report under IFRS today.

8 As I mentioned before, we do have an internal
9 accreditation process that requires those individuals to take
10 baseline training and then to take annual update training, so
11 we make sure, as Peggy said, if they are signing off on those
12 interoffice reports, they are qualified to do so.

13 In terms of what we would do going forward and
14 whether our training would be different, depending upon the
15 optionality or the mandatory nature, we haven't come to a
16 definitive conclusion on that.

17 My feeling is that certainly if IFRS becomes
18 mandatory, then we will need to have everyone trained. If it
19 is optional, then it's probably going to be more on a facts
20 and circumstances basis, but again, I think that will depend
21 upon the market, what our clients are doing, how quickly they
22 are moving, and that will dictate how we train.

23 In Europe, one of the things that they did -- some
24 countries approached it different from other countries. Some
25 of them did hire outside groups to come in and to help train

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1 their people. Some of them went about it more on an internal
2 basis. Our firm, Gary's firm, others, we all developed
3 training to do that internally.

4 One of the things that we found, and it was pretty
5 apparent early on, is that in the 2000/2001/2002 time period,
6 we knew or we had a good idea of what was coming, but the
7 regulation had not been issued yet, but we did not do a whole
8 lot of in depth technical training at that point because
9 people would forget it.

10 You can't really teach this stuff before you are
11 going to be applying it. We found that it was much more
12 effective to target the timing of our training to the period
13 at which companies were actually beginning to convert. It
14 was much more effective, and I think from all accounts worked
15 very well.

16 MR. HEWITT: Gary?

17 MR. ILLIANO: I think Danita makes a very good
18 point. It is problematic and tricky to try to figure out how
19 best to roll out a training when you don't have a lot of
20 activity going on and the lack of recency of experience
21 causes the skills to deteriorate. This is something we very
22 much grapple with.

23 Just to paint a little bit of perspective, based on
24 my own sort of unscientific whatever survey, of whether or
25 not there is a lot of activity in this area, in our market,

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1 which really the survey consisted of calling up BDO Seidman
2 and seeing how many they are doing.

3 MR. ILLIANO: We are not doing all that many here.
4 What we have done is for the ones that we are doing, there is
5 a core group of people within the firm that are focused on
6 this area, so we are continuing to develop them and to make
7 sure their skills stay recent and their activities continue
8 and that we provide sufficient support for them while we
9 grapple with the issue of how and when to do training.

10 I think it is an issue of focus. If there is a
11 market for this, then people will focus on that. If there is
12 a regulation that says this will take place, then people will
13 focus on that, not before.

14 We again would be in favor of a mandatory date even
15 with a phase in and certainly I think the voluntary program
16 is a step toward getting us there.

17 I did on this topic speak with our European
18 affiliates as well to find out how they went about doing this
19 back when they were implementing. The term they used for it
20 was "our IFRS champions." That means they designated a core
21 group of people. They called them IFRS champions. They were
22 the people who were available to take the calls and then
23 train other people, and it sort of cascaded down from there.

24 In our client base, we are actually going to be
25 more affected or our affiliates are going to be more affected

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1 not from the listed company transitioning in 2005 but from
2 the transitioning required for the AIM companies in 2007.

3 They believe they are in a better position now
4 having gone through the experience of a few in order to deal
5 with this higher demand.

6 The other point that they were happy to make to me
7 is they thought I was being a baby about training. They said
8 from their point of view, the more difficult IFRS standards
9 were born in the USA.

10 They were helpful. They pointed out that if I
11 cannot follow IS-12 on income taxes, IS-19 on employee
12 benefits, 32 and 39 on financial instruments, IFRS-2 on
13 shared base payments, then I must not be a very good U.S.
14 CPA.

15 MS. OSTLING: Touche.

16 MR. CARNALL: Maybe if we can change directions a
17 little bit. We have talked about some of these issues from
18 the perspective of the auditor and from the preparer and in
19 terms of training those people.

20 Since the purpose of preparing financial statements
21 is a form of communication to investors, I'd like to address
22 some of these issues from the investors' perspective.

23 Jim, a very simple question, I guess. Are U.S.
24 investors ready for U.S. companies to report under IFRS?

25 MR. GLERUM: I guess when you listen to UTX and P&G

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1 say we are in the early stages, and you listen to the
2 academic community say this isn't even early stages, the
3 stuff really isn't being taught, it's hard for me to jump to
4 a conclusion that U.S. institutional investors, retail
5 investors, are absolutely ready for this, they are all
6 schooled and they are seasoned and they are ready to go.

7 I think broadly based, the answer has to be no. I
8 don't think investors are ready for this.

9 The challenge is, the natural question is there is
10 all this investment into foreign or non-U.S. corporations by
11 U.S. investors, and I think that is true. The percentage
12 change has been significant, but the percentage of what U.S.
13 investors are investing in is still predominately here in the
14 States.

15 One of the interesting concerns I guess I would
16 raise is if you look at the position papers in response to
17 the SEC concept release, there was a high percentage of the
18 responses in favor of U.S. corporations having the option
19 over time to file either U.S. GAAP or via IFRS.

20 Every time you check a response from the analytic
21 community, whether it's the rating agencies, or I guess I'll
22 use the CFA Institute's response as maybe broad based
23 representing portfolio managers, investment advisors and
24 broadly based investors.

25 They get very concerned about the comparability of

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1 financial statements by U.S. GAAP or by IFRS and if we allow
2 U.S. companies the option to go either way, how that is going
3 to change what they do in making economic decisions.

4 When you have both the rating agencies and the CFA
5 Institute saying please don't let U.S. companies have the
6 option, it's going to make our lives much more difficult, and
7 they are the institutions out there to protect investors, if
8 they are saying we really don't want to see optionality on
9 behalf of the companies, it's hard for me to then say that
10 investors are really ready for this right now. I don't think
11 they are.

12 MR. CARNALL: In that regard, Jim, is there
13 anything that the Commission or others could do to help the
14 investors become ready for IFRS in our country?

15 MR. GLERUM: It's the easiest and sledge hammer
16 way, to force it, pick a date certain, have it near term, and
17 that will certainly get everybody's attention. That probably
18 is not going to be the strategy.

19 If it gets implemented, it's going to be over some
20 period of time. I think the educational challenges to
21 investors is a big one.

22 As Mick mentioned, P&G at some point, and I'm sure
23 UTX at some point, will be taking direct action with their
24 own analysts, with their own investors, to help them
25 understand what P&G and UTX are doing.

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1 The accounting firms will be doing the same,
2 getting the companies ready. On our part, most investment
3 banks and most financial institutions, we have our own
4 accounting folks in Zurich for UBS, but we also have
5 accounting groups that are addressing these issues.

6 My suspicion is we will be hiring up to educate our
7 own sales forces, to get comfortable with these issues. We
8 will be educating our own clients on the investor side as
9 well.

10 MR. CARNALL: This concern about having possibly an
11 option of reporting under IFRS, would this be a concern
12 equally for the institutional investors as well as the retail
13 market or primarily for the retail market?

14 MR. GLERUM: I think broadly based institutional
15 investors, you have some very, very large institutional
16 investors and you have some very large hedge funds, and you
17 have smaller institutions, and then you have the retail
18 investors.

19 My comments quite early on about the smaller
20 company and the potential disadvantage for them in not seeing
21 the benefits, I think the SEC is going to be very focused on
22 the retail investor, how are they going to figure this out.
23 How are they going to understand the differences.

24 As you work your way up to the smaller
25 institutions, I think the challenge is going to be quite

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1 significant there as well.

2 I do think you will be introducing a lot of
3 confusion in the investing public if in fact you allow
4 optional reporting by U.S. companies.

5 MR. CARNALL: I just want to follow up on that
6 issue regarding comparability. As John White mentioned in
7 his introductory remarks, Professor Hal Scott last Thursday
8 brought up in his discussion the possibility of allowing or
9 requiring rather U.S. companies that elect to use IFRS to be
10 required to reconcile to U.S. GAAP for let's say a period of
11 time in certain of their filings.

12 I was wondering if you could share your perspective
13 if that would address some of the concerns about the lack of
14 comparability, and then I'd actually like to ask that same
15 question to the other participants/panelists.

16 You are effectively saying more information is a
17 better thing?

18 MR. GLERUM: I think the nature of the question is
19 if you were asking P&G, UTX and the rest of Corporate America
20 to do a lot more work, show us not only the IFRS data, show
21 us the U.S. GAAP, reconciled both ways, it's a lot of work.
22 It's more costly. Would it be beneficial? Sure.

23 One of the other challenges on the optional
24 reporting is -- Peggy mentioned it earlier on the LIFO
25 accounting -- there is going to be some companies where their

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1 financial statements are going to look better under IFRS or
2 they are going to look better under U.S. GAAP.

3 Again, as you put out the option to U.S. companies
4 to go either way, you are probably going to have to
5 start -- investors are going to be questioning okay, P&G
6 decided to go in 2008 and UTX decided to go in 2009. Why?
7 Why did P&G decide to go early? Is it because they are
8 pioneers or is it because their financial statements look
9 better, because they made this decision? Colgate-Palmolive
10 chooses not to and P&G does.

11 You probably with the option would be introducing
12 some more confusion as to why companies are choosing the
13 strategy that they have chosen.

14 MR. CARNALL: Do you envision that there would be
15 an arbitrage in that regard?

16 MR. GLERUM: There might be.

17 MR. CARNALL: Would you favor a company should
18 disclose the reason why they are selecting one basis of
19 accounting over the other?

20 MR. GLERUM: No. I think it is going to be too
21 hard to do. It's such a broad range of reasons why. There
22 are going to be a number of companies that are already doing
23 it because of either financing overseas, for regulatory
24 reasons, they have to use IFRS.

25 I think to try to create a public reason why they

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1 have chosen to take which action, I think that is too much to
2 ask for of companies.

3 MR. CARNALL: Danita?

4 MS. OSTLING: I was just going to say that with the
5 requirements of IFRS, in the year of adoption, to disclose
6 financial information with a reconciliation of equity and
7 income from the previous GAAP to IFRS, I think that investors
8 would be able to glean a lot of that needed information in
9 those first year's statements.

10 Because you have comparatives in the first year of
11 reporting, public reporting, you will have comparative
12 statements. The issue of whether it's one year comparatives
13 or two, I guess, is an issue for the Commission yet to be
14 decided, but you would be able to look at those statements
15 compared to what was previously reported, and you have the
16 reconciliation.

17 I think that will go a long way toward helping
18 investors and other users to understand what was done.

19 MR. CARNALL: I would be very interested in your
20 perspective if this were to be a requirement, one, do you
21 think it would be beneficial to your shareholders, and what
22 would be the cost of that information.

23 What was being envisioned by Professor Scott was
24 something beyond what was required under the standards, that
25 this would be prospectively as opposed to retroactively.

1 If the Commission required a reconciliation for
2 let's say a period of time, one or two years, would that be
3 beneficial or would that be costly?

4 MR. HOMAN: I really do think if you are looking at
5 an optional period, I think that would be a very large
6 dis-incentive to anybody electing the option to go early. It
7 is extremely costly to maintain two sets of books. There are
8 a lot of system changes that need to be done to turn out your
9 primary financial statements.

10 The reality is right now, even though we do file
11 IFRS statutory reporting in a number of local markets, the
12 time line is much later than the U.S. GAAP, and we don't have
13 the capability to really turn those dual sets as quickly as
14 we can our primary set of financials.

15 I just don't think there is any way that we could
16 effectively design a system to turn out both sets of
17 standards within the SEC's required reporting time lines. I
18 just think it would be a very large dis-incentive to go
19 early.

20 I do fully agree that in the year of adoption,
21 there ought to be some type of a reconciliation and some type
22 of a restatement period. The length of the restatement
23 period will impact how easy that is to do, and there is
24 obviously the issue of the primary financial statements and
25 then the full five year or ten year summaries that people put

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1 in and how much of that is required will drive some of that.

2 I do think it would be a very large dis-incentive
3 to get anybody to move early.

4 MR. CARNALL: Peggy?

5 MS. SMYTH: If you look at the Institute of
6 Chartered Accountants in England, Wales, in the survey that
7 they did that we spoke about earlier, they estimated that the
8 cost of converting to IFRS for companies with over 5 billion
9 Euro of sales, would be .05 percent.

10 For a company like United Technologies, .05 percent
11 of our revenues is over \$25 million. Assuming that's a good
12 estimate, it will cost a lot just to convert to IFRS.

13 To have to reconcile or to continue to have to
14 reconcile to U.S. GAAP is going to be an additional burden
15 and would increase that cost as well.

16 I think what might be helpful in order to entice
17 companies to convert early, let's say, if the Commission
18 desires to reconcile going forward in U.S. GAAP, that perhaps
19 some concessions would have to get made, some kind of
20 favorable terms would have to be offered to any company that
21 would move voluntarily into the program.

22 Similarly, what was done with XPRL. There were
23 certain advantages to participate in the voluntary compliance
24 period with XPRL. Perhaps the Commission could come up with
25 certain incentives that would encourage companies to move

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1 forward, but it will be very expensive to do so.

2 MR. CARNALL: Danita and Gary, do you have any
3 thoughts on this issue?

4 CHAIRMAN COX: I don't want to cut off the
5 panelists. I'd like to just ask a follow up question before
6 we move to the next topic. Go ahead.

7 MR. CARNALL: Danita or Gary, do you have any
8 observations?

9 MR. ILLIANO: Yes. I would say the comparability
10 issue troubles me a little bit. I frequently see the
11 comparability issue brought out as a reason to not do this.
12 Oh, if you have IFRS coexisting with U.S. GAAP, they won't be
13 comparable.

14 It seems that might be true when you are looking at
15 one company over periods, you also have to look at
16 comparability from the perspective of what everybody else is
17 doing. If everybody else is using IFRS and you are on U.S.
18 GAAP, I don't really see comparability there. I don't know
19 that comparability is the only thing we look at.

20 Shouldn't we be considering whether the information
21 is relevant, whether it's understandable, some of those
22 issues.

23 I think what we ought to be doing is we have this
24 overarching principle here that says everybody agrees we
25 want to be speaking the same language. We want to get to one

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1 set of high quality globally accepted accounting standards.

2 If you use that as your over arching principle,
3 then you can analyze the issue and say well, does this bring
4 us further, does this advance us towards that goal or not.

5 If you say well, if we phase in IFRS for certain
6 companies, if we have a mandatory date, and you think about
7 these things in the context of does it bring us closer to the
8 goal, that, I think, is a worthwhile debate.

9 MS. OSTLING: I would echo exactly what Gary said.
10 I think if we have concluded that IFRS is a robust accounting
11 framework with robust governance and due process that
12 produces relevant understandable financial statements, we
13 have the disclosures required by IFRS in the year of
14 adoption.

15 I don't see the cost benefit of continuing to do a
16 reconciliation going forward. I think the costs would far
17 outweigh the benefit.

18 MR. CARNALL: Chairman Cox?

19 CHAIRMAN COX: To go a little further on the
20 reconciliation, if you will, our concern about smaller
21 companies being mandated to do this, the lack of obvious
22 benefit for them, possibly the lack of comparability if they
23 are not globally active and don't have competitive peers
24 overseas using IFRS on the one hand, with our concerns about
25 making sure that everybody does it the same way.

1 Might it not be the case that if we are trying to
2 phase in, that we could get the benefits of increased U.S.
3 experience and exposure, training, education, all the things
4 that we have been talking about, if we try to focus on at
5 least some subsets of the market where comparability would be
6 enhanced.

7 Where, for example, most peers in an industry group
8 are using IFRS. That might give us a bridge. I don't know
9 whether or not that is something that occurs also to others
10 on the panel.

11 MR. ILLIANO: I can address that. I think the
12 right course here is to take advantage of what I see as a
13 tremendous opportunity. You have a group of companies that
14 will, based on market forces at this point in time, conclude
15 that it is better for them to convert to IFRS.

16 When they do that, we will then in the ensuing
17 years get the benefit of their experience, which would be
18 advantageous to standard setters in terms of convergence,
19 which would be advantageous to the Commission in terms of
20 what regulatory decisions need to be made.

21 I think you also need to have a date certain for
22 convergence because people will not begin to focus on it.
23 What that number of years is, you know, I haven't really
24 heard anybody saying anything less than five years.

25 I think you also need to phase in for the bigger

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1 companies that are better able to absorb the costs, even
2 though they are high end dollar amounts, as a percentage,
3 they would be more onerous on the smaller companies. The
4 smaller companies are going to be slower to see the
5 advantages to them converting. Smaller companies would
6 benefit more by having other people blaze the trail ahead of
7 them.

8 I think that a phased in approach based on probably
9 company size over some extended period but with a date
10 certain would be a very useful approach.

11 MR. GLERUM: Gary's suggestions are probably right.
12 Chairman Cox, here's my concern. Let's say to your exact
13 point, the telecom industry, well more than half of the
14 market capitalization is not in the U.S. any more. That's an
15 industry sector that has become dominated by global players
16 and I assume most of those global players are using IFRS.

17 If we are in a phase in period over the next
18 handful of years and there's the option for U.S. companies to
19 use IFRS in the telecom industry, a couple of leaders in the
20 United States choose to go IFRS. That will push the investor
21 community to focus for telecom companies on IFRS based
22 analysis.

23 As an investment banker that has done a lot of
24 business with middle market companies, if I have a privately
25 held company that wants to go public and they have been U.S.

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1 GAAP, not a filer, but following U.S. GAAP for their entire
2 existence, they want to go public, but the investment
3 community is now demanding for them to have a successful
4 offering, they have to switch. That is now the market
5 acceptance. That's the way the institutional investor
6 community that dominates initial public offerings want to see
7 financial reporting.

8 That is going to put a lot of burden on that
9 company to get there. It's going to be more costly for them
10 to get there. Today, we are in a period where accountants
11 are typically the critical path to getting public offerings
12 done. It's challenging enough just the way things are today.

13 You run the risk through a phased in process of
14 putting an enormous burden on that smaller company that wants
15 to get to market quickly and can't because market convention
16 is moving in a way that they are not prepared to go to
17 quickly enough.

18 I'm not sure there is a solution. I think this is
19 probably one of those growing pain issues that we are going
20 to have to work through and it will more than likely, no
21 matter which course of action is chosen, to get to the
22 broader goal, the single set of high quality standards, there
23 is going to be some bumps in the road, and those bumps in the
24 road will probably be to the detriment of the smaller
25 companies in the United States.

1 CHAIRMAN COX: If I may just understand the example
2 that you provided. Your initial condition was that roughly
3 half of the market cap was IFRS already.

4 MR. GLERUM: I'm assuming so.

5 CHAIRMAN COX: Let's just take it as a
6 hypothetical. There was never a Government mandate in the
7 picture. It was investor driven and market driven for
8 reasons of comparability.

9 At least with respect to that hypothetical example,
10 it strikes me that if comparability is the touchstone, that
11 ought not be an objection to optionality.

12 MR. GLERUM: The other stipulation was there was
13 some leadership by U.S. players, therefore, they decided
14 because of their own competitive situation to go to IFRS.

15 CHAIRMAN COX: Specifically, the reason they
16 decided was that the preponderant market cap was already
17 IFRS, and those were the industry peers to whom they were
18 being compared.

19 MR. GLERUM: Correct. I think that is probably
20 what will begin to happen over time. Again, I think it puts
21 the smaller cap U.S. player at a disadvantage getting to
22 market when all that is happening around them.

23 CHAIRMAN COX: That is a concern we will have even
24 more and to a greater extent when we get to industries where
25 the comparability is really U.S., if we have a mandate.

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1 MR. GLERUM: Correct.

2 MR. CARNALL: If I could just follow up on some of
3 the same issues regarding the market forces. Jim, I'll
4 direct this question to you.

5 There has been much discussion about the optional
6 use of IFRS, that a number of companies could reduce their
7 compliance costs. If we reduce some compliance costs, there
8 is certainly a benefit.

9 I was wondering if there were other benefits from
10 the market's perspective, and in that regard, one of the
11 questions I would have is while Americans are known to invest
12 in foreign companies, the reverse is certainly true.
13 Non-Americans invest in U.S. companies.

14 What would be the advantage to a U.S. company of
15 being allowed to report using IFRS? For example, would there
16 be a premium in offering its shares in Europe if the
17 financial statements were prepared in accordance with IFRS?

18 MR. GLERUM: No. I think the advantage for an
19 American company well understood using IFRS where we have a
20 global high quality standard, I think that U.S. company is
21 going to be in a position at least from a capital raising
22 perspective to more quickly access markets that are the
23 cheapest to it, or the cheapest for it to issue in around the
24 world.

25 As we think forward five/six years hence, if

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1 everyone is on IFRS, we really have the global marketplace
2 that we are all achieving, I think this has to reduce costs
3 to capital. The ease of getting capital and finding the most
4 attractive markets will be much better for everyone.

5 MR. CARNALL: Other than reducing compliance costs,
6 what advantages do you see into the marketplace of using
7 IFRS? Mick?

8 MR. HOMAN: I think there is a capital raising
9 element to it in addition to just the equity offerings.
10 There are often times companies for one reason or another who
11 want to issue debt offshore, on shore, whatever, and that is
12 always a consideration when we are looking at where are we
13 going to issue the debt, what are the financial reporting
14 requirements.

15 At least today, to the extent that someone needs
16 IFRS, we go a different route. We find an acceptable route.
17 It would make it easier. It would take that consideration
18 off the table if we were on IFRS.

19 MR. CARNALL: Peggy?

20 MS. SMYTH: Similar to Mick, it would give us
21 flexibility, too, let's say if we wanted to spin off a
22 subsidiary around the world, we could do a joint venture with
23 a company that is an IFRS filer. If all of our companies
24 were on IFRS and if the tax codes in the various countries
25 started to allow IFRS as the basis for tax reporting, it

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1 certainly would save us a tremendous amount of money just in
2 consolidation processes.

3 We could centralize a lot. It would help us from a
4 tax planning and strategy perspective, if everybody is on the
5 same basis of accounting. It would help us to better
6 coordinate our global tax planning. It would also help us in
7 terms of determining the dividends that we would be able to
8 issue from various subsidiaries around the world from the
9 parent company if everybody was on IFRS.

10 There is a lot of benefits.

11 MR. CARNALL: Do you think there would be any
12 benefit from a market perspective? Your ability to either
13 raise capital or issue shares?

14 MS. SMYTH: I would think it would just give us
15 more flexibility.

16 MR. CARNALL: Another question, and this is
17 actually following up on what Gary had indicated before, that
18 it should be very easy for U.S. companies to switch to IFRS
19 because IS-12 is very similar to 109 and some of the other
20 comparisons that you made.

21 I'd like to follow that up. Do you actually
22 believe that it would be easier for U.S. companies to switch
23 to IFRS compared to our European companies?

24 Likewise, do you believe there needs to be further
25 convergence to make it even more easier for companies to

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1 switch, or do you think there has been sufficient convergence
2 at this point in time in that regard?

3 MR. ILLIANO: The basis for my remarks that it is
4 easier really was the opinion of the Europeans. I brought
5 along my IFRS book. It is 2,600 pages of IFRS. I don't
6 think you learn that overnight. I think it takes a while
7 even if you have a strong foundation in U.S. GAAP.

8 Depending on how good your training is, it's going
9 to take you a while to get with this 2,600 pages and it's
10 going to be more next year.

11 I don't want to make it sound like it's going to be
12 an easy process. I don't think by any stretch it's going to
13 be an easy process.

14 Whether or not we should wait for convergence, it's
15 a difficult issue. Convergence probably means different
16 things to different people. I think convergence is tough. I
17 think convergence is a hard process. I think we have some
18 really smart people at the FASB and the IASB working on this,
19 and there are convergence programs going on around the world,
20 not just between the U.S. and the IASB.

21 It's a really tough process and it's going to take
22 a long time. I'm not exactly sure when you say okay, we're
23 done. What does that really mean? Even the most recent
24 business combination standard, which was a good example of
25 why convergence is a positive thing, because convergence, if

1 the standards are lacking in either system, you sit down and
2 you say let's go ahead and fix this and make this a better
3 standard overall, and even that was a difficult task and they
4 didn't actually come to agreement in the end.

5 Whether or not we should wait for convergence,
6 difficult issue. My personal view is we are probably
7 converged enough at this point to start to put some of these
8 things in place. Although I think convergence will continue,
9 I think we have a large commitment on the part of the
10 standard setters to continue convergence regardless of which
11 way the Commission goes on allowing U.S. companies to use
12 IFRS. I think that will continue.

13 I think at some point, you have to step back to
14 what I think is the over arching goal, which is to get to one
15 set of high quality globally accepted standards, and the
16 issue for me is whether or not you say we need to converge a
17 little more before we do that or do we start to put these
18 other programs in place simultaneously, so that we can begin
19 to move a little further up the hill on this.

20 MR. CARNALL: Thank you. Arleen?

21 MS. THOMAS: Just maybe broadening Gary's comments
22 slightly. When I think about financial reporting, I really
23 do think of a system. There are four components of that
24 system, audit, accounting, regulatory and legal.

25 Our questions today have pretty much all been

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1 focused on accounting. I think as we consider whether or
2 not -- I understand the question of whether or not
3 convergence in accounting is at the right spot, but I think
4 we also must consider whether or not those other subsystems
5 are ready for convergence as well, specifically the auditing
6 piece, the convergence to international auditing standards,
7 and all the fine work that has been done from the regulatory
8 standpoint.

9 I just want to make sure that we don't spend -- we
10 put an appropriate amount of time on the accounting, but
11 don't forget we are part of a system, and the system has to
12 be ready to go.

13 MR. CARNALL: Danita?

14 MS. OSTLING: I agree with what Gary and Arleen
15 said. I think that in my mind, as Gary said, these are the
16 things that need to be occurring. You don't wait for them,
17 or I don't believe you have to wait for them to occur. In
18 fact, I don't think if we wait, convergence will ever
19 be -- the standards will ever be 100 percent converged.
20 There will always be differences.

21 We saw that with business combinations. The new
22 standards that the U.S. issued just week before last, the one
23 that the IASB is going to issue in January, even though it
24 was a joint project, there are still differences when they
25 get finished.

1 I agree with Arleen. I think there are so many
2 other things, like I said before, in the regulatory, the
3 legal environment, the auditing standards, that need to
4 occur, and the continued improvement of the accounting and
5 financial reporting standards.

6 That is just part of the ongoing work of the IASB.
7 If they are working more closely with the FASB, that is a
8 good thing. Setting a date in my view will help to speed
9 those things along. It will help to drive some of that
10 change that otherwise might take a while.

11 I agree with Gary. We don't have to wait for the
12 standards to be fully converged, but that's not to say that
13 convergence still should not be a priority. It should be a
14 priority during this intervening time period.

15 MR. CARNALL: If I could follow up with a question
16 on that, Danita. You had mentioned a little before about the
17 regulatory environment. I was wondering if you could expand
18 on that in terms of what changes do you think need to be made
19 in the regulatory environment to facilitate the acceptance of
20 IFRS?

21 MS. OSTLING: I think that legitimate questions
22 exist about whether professional judgments that are made by
23 preparers and made by auditors are going to be accepted.

24 I think that there is a lot of work that needs to
25 be done within the U.S. today to make sure that those

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1 professional judgments are going to be accepted and accepted
2 without the benefit of hindsight, accepted, smart people
3 making the best decisions they can make today with the facts
4 they have available, operating within this accounting
5 framework of fewer bright lines than what we have in the U.S.
6 today.

7 I think there are various legal and regulatory
8 issues that need to be addressed and changes that need to be
9 made.

10 We are talking about the accounting, like Arleen
11 said, and that's great, that's good, but on a parallel track,
12 these other things need to be worked as well.

13 MR. CARNALL: Ross, do you have an observation?

14 MR. JENNINGS: I wanted to go back to when talking
15 about whether convergence is far enough along for it to be
16 easy to make the transition to one set of standards.

17 A couple of people alluded to it, but I wanted to
18 make clear that there is also feedback in the other
19 direction, on the way in which the transition occurs to one
20 set of standards is feedback on the convergence process.

21 I think when those decisions are made, there ought
22 to be thought given to what incentives this will give to the
23 standard setters, the IASB and the FASB, to continue their
24 convergence work during the transition period.

25 MR. CARNALL: I think we have time for one last

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1 question, if I may. IFRS requires certain information to be
2 included in the financial statements that historically in the
3 U.S. would be excluded from the financial statements, such as
4 market risk disclosure that is required by IFRS-7.

5 A U.S. company would have a safe harbor over
6 disclosure of that information, whereas if a company includes
7 it as part of their primary financial statements, they would
8 lose that safe harbor.

9 Do you think that loss of safe harbor will be a
10 deterrent in companies opting to use IFRS if it becomes
11 optional?

12 MR. ILLIANO: I absolutely believe that will be a
13 deterrent and it may not be a deterrent for every company,
14 but if it's a deterrent for even one company, that's not a
15 good thing in terms of moving us forward towards the ultimate
16 goal of having one set of standards.

17 I don't think a company should be deciding on
18 whether they move to IFRS based on the fact that they have
19 some anxiety about this one part of their financial
20 statements, and I would encourage to the extent they can the
21 Commission to consider rule-making or whatever avenue is
22 available to provide some sort of safe harbor in this regard.

23 MS. OSTLING: I agree completely.

24 MR. CARNALL: Peggy and Mick, do you have any
25 observations on that?

1 MR. HOMAN: I completely agree.

2 MS. SMYTH: I agree as well.

3 MR. HEWITT: It appears we are nearing the end of
4 our panel. We would like to move on to closing comments.
5 Before I do, are there any other questions from the
6 Commissioners?

7 As I promised at the beginning, I will ask each
8 panelist to give us any closing thoughts, suggestions, or
9 words of wisdom for the Commission. We will start with Jim.

10 MR. GLERUM: A lot of my comments have been in the
11 spirit of trying to look out for the smaller public company
12 and also the smaller investor. I think the noble goals of
13 single high quality standards are just that, they are noble.

14 I think every corporation and every investor wants
15 to get there. The process of getting there is probably going
16 to put some burden on those smaller companies and those
17 smaller investors. I think it is something we need to watch
18 carefully for. Thank you.

19 MR. HOMAN: Yes. I think most of it has been said.
20 I think at the end of the day, everyone is in favor of a
21 global set of standards. I think if IFRS becomes the de
22 facto standard, given that the U.S. is really the only
23 significant outlier at this point, it becomes a question of
24 how do you best get there.

25 I absolutely think that the optional approach with

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1 a mandatory date at some point in time is the best way to go.
2 I think the optional approach will give us a great
3 opportunity to learn.

4 I think it will happen in a much more manageable
5 base as individual companies make that decision. It will
6 bring the audit profession, it will bring the universities,
7 it will bring companies along on a pace that let's us get up
8 to speed over time.

9 I think it could also obviously free up a lot of
10 resources. We have talked about freeing up resources from a
11 company perspective. I think it may also free up some
12 resources for the standard setters.

13 We talked a little bit about convergence being very
14 difficult. Bob can attest to this, but it's very difficult
15 to get seven people in a room to agree. When you add in a
16 second board, it becomes almost impossible to reach
17 convergence and agreement on topics.

18 If we all agreed that we were going to IFRS, it's
19 possible that this could be a big opportunity for the FASB to
20 re-dedicate some of their resources toward moving the U.S.
21 system closer to IFRS in the short term so that the ultimate
22 convergence is easier. They could help address any
23 significant gaps that folks see in some of the IFRS set of
24 standards. I think it could also be a major benefit for
25 them.

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1 MR. HEWITT: Thank you. Gary?

2 MR. ILLIANO: I think that we in the U.S. have been
3 moving forward and trying to improve financial reporting for
4 a long, long time. I think we have been moving up this
5 mountain and we have had a lot of obstacles. We have had a
6 lot of difficulties. We have learned a lot of lessons along
7 the way.

8 Where we are now is we can sort of see the summit,
9 and the summit is this one set of financial standards that
10 everybody speaks the same language.

11 There has been a lot of people following behind us
12 in our path, you know, to the side of us, and along the way,
13 as we have gone through all these experiences, we have had to
14 put on some armor. We have had to put on some protections.
15 It slowed us down a little bit.

16 If we look off to the side, I think we see another
17 group that's not as heavily weighted down and they may be a
18 little bit further up the hill and they are saying hey, we
19 think this is the path to the summit. We ought to think
20 about whether or not we want to join them. They want us to
21 join them.

22 It may be that's going to be the best way to get up
23 there. We can still forge our own way if we choose to, but I
24 think we probably ought to get with everybody else because a
25 lot of other people are joining that other group, and I think

1 we ought to get in with all of them and continue up the hill
2 together, and that way we will get to the summit in the most
3 expeditious fashion.

4 MR. HEWITT: Thank you, Gary. Ross?

5 MR. JENNINGS: Maybe I will build a little on
6 Gary's metaphor but use a slightly different path.

7 There seems to be unanimity here and apparently
8 last Thursday about the goal, where we are all headed, global
9 uniform high quality financial statements.

10 For me, there has been a surprising amount of
11 increasing momentum in that direction in the last couple of
12 years. There are a lot of players involved in that momentum
13 and the effort to go forward and to make the transition.
14 Standard setters. Regulators. Preparers, and of course,
15 demand from investors.

16 I do think the U.S. market plays a particularly
17 important role in all of this because of its size, because of
18 the depth of its institutions, and because of its long
19 history of high quality financial reporting.

20 While it appears the rest of the world is a little
21 bit ahead of us, where they are has a deep U.S. imprint on
22 it, on everything that they are doing.

23 I think it behooves the United States to be a very,
24 very deliberate player in this because of the weight of its
25 influence on the rest of the world and to plan the transition

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1 very, very carefully, in a way that is most beneficial to not
2 only U.S. investors, but to the progress in the world towards
3 this goal that everyone is trying to achieve.

4 MR. HEWITT: Thank you, Ross. Danita?

5 MS. OSTLING: To build off what Ross said, I think
6 we have all said it multiple times, that we want to get to
7 this single set of high quality standards that everyone can
8 use.

9 I think the SEC right now is in a very unique
10 opportunity to provide added momentum to that by adding the
11 U.S. markets. I think the Commission is also in the unique
12 position to provide the impetus for accelerated change on the
13 behalf of other securities regulators around the world and
14 other standard setters.

15 When we talk about the fact that there are 100
16 countries around the world that either require or permit IFRS
17 today or base their standards on IFRS, actually, a very
18 significant percentage of that 100 are countries that base
19 their standards on IFRS, and they might be very close or they
20 might not be so close at all.

21 By the SEC endorsing U.S. companies using IFRS, I
22 think that puts pressure on some of these other regulators
23 and standard setters around the world to do the same.

24 What I would like to see is our getting to a
25 situation in which there aren't the carve out's, the

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1 endorsements and the various twists and turns in the
2 application of IFRS. It defeats the purpose. It undermines
3 our overall objective of getting to this single set of high
4 quality standards by having different regulatory spins or
5 interpretations.

6 I think the SEC is uniquely positioned in its
7 market leading position to influence some of those other
8 regulators around the world.

9 MR. HEWITT: Thank you, Danita. Peggy?

10 MS. SMYTH: As you can tell from my comments today,
11 we are supportive of moving to one set of high quality global
12 financial standards. When you look at it, it's very doable
13 because over 12,000 companies around the world have just
14 recently done the convergence. I would think that U.S.
15 companies should be able to do the same.

16 There are a couple of big ticket items that do need
17 to get addressed before we do move forward, we believe, and
18 we spoke about them today, just the legal and regulatory
19 environment, where we will not be second guessed for making
20 good judgments.

21 Second is from the tax alignment perspective and
22 making sure that we will not be penalized from a tax
23 perspective as well as trying to align tax reporting with
24 financial reporting, and third, just from a contractual
25 compliance perspective, that companies that companies that

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1 move forward on IFRS implementation would not be penalized
2 because they have financial metrics that ratings agencies and
3 bankers, so to speak, will be evaluating them on will have
4 changed.

5 Those are really the three big ticket items that we
6 think need to get addressed.

7 MR. HEWITT: Thank you, Peggy. Arleen?

8 MS. THOMAS: I travel internationally quite a bit
9 in the AICPA support of XBRL. There is no question that my
10 international peers are just excited that we are having the
11 conversation. They feel we are probably the last to come to
12 the party.

13 Yet I still hear this anti-U.S. financial reporting
14 comments that get made at every cocktail party. I would
15 encourage each one of us to really manage that noise. All of
16 us, whether we are here in the United States or whether we
17 are in Europe or whether we are in Asia, we are all actors in
18 a global financial reporting process, and we must come
19 together to ensure that we have the best system for financial
20 reporting.

21 Whether it's the EU that has the best answer or the
22 U.S. has the best answer, we need to figure out how to use
23 our political skills and our powers to make sure that the
24 best answer gets embraced.

25 From my own perspective, it's kind of time for just

1 some old fashioned good negotiations, to make sure that we
2 have the best system for financial reporting.

3 MR. HEWITT: Thank you, Arleen. Chairman Cox?

4 CHAIRMAN COX: This is an opportunity for me once
5 again to thank the panel. You have done a splendid job this
6 morning. Your various perspectives are extremely useful to
7 each of us up here as Commissioners, to all of our staff, and
8 to the broader audience that is participating in this
9 discussion remotely and in real time and over time, as they
10 come to understand what it is we are talking about.

11 I also want to thank Con and Wayne for being
12 outstanding moderators. Thanks very much.

13 This has been an excellent first panel.

14 MR. HEWITT: Thank you all for a very interesting
15 and stimulating discussion on a very important subject. I
16 think we all have learned much today and are coming away with
17 a greater insight into where we should be going in this area.

18 Let's take a brief break and return for the second
19 panel at 11:30. Thanks again.

20 (Recess.)

21 PANEL 2 - THE GLOBAL PERSPECTIVE

22 MS. ERHARDT: My name is Julie Erhardt. I'm a
23 Deputy Chief Accountant in the Office of the Chief
24 Accountant. Next to me is Paul Dudek, one of the Directors
25 in the International Affairs Office of the Division of

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1 Corporation Finance.

2 Welcome to the second session of today's roundtable
3 on IFRS in the United States.

4 First, I'd like to begin by -- actually, I will
5 just have our panelists introduce themselves quickly. You
6 will notice there is an empty chair on the panel.

7 The first chair belongs to Paul Cherry, who is the
8 Chairman of the Canadian Accounting Standards Board, who made
9 a valiant effort to fly here from Canada, but due to the
10 weather, was unable to make it, even though he has been at it
11 for a good 24 hours now.

12 I think through the benefit of technology, we are
13 able to actually have him participate by telephone. Is he
14 hooked up?

15 MR. CHERRY: Yes, I am, Julie. Thank you very
16 much.

17 MS. ERHARDT: Thank you, Paul.

18 MR. CHERRY: It gives me the benefit of taking my
19 tie off.

20 MS. ERHARDT: I will confirm it's not video, so
21 feel free to loosen the tie.

22 With that, let me turn to Jeff and just go down the
23 line to introduce the other panelists.

24 MR. BUNZEL: Jeff Bunzel. I run the Equity Capital
25 Markets Group at Credit Suisse in New York.

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1 MR. HERZ: I'm Bob Herz. I'm the Chairman of the
2 Financial Accounting Standards Board.

3 MS. MAHER: Hi, I'm Dina Maher. I'm the head of
4 U.S. Accounting Research and Policy at Fitch Ratings.

5 MR. MCGINNIS: Hello. I'm Jack McGinnis. I'm the
6 controller of HSBC North American Holdings, based in Chicago.

7 MR. RANZILLA: I'm Sam Ranzilla, the partner in
8 charge of the National Office of KPMG in New York.

9 MR. THORPE: I'm Richard Thorpe. I'm head of
10 Accounting and Auditing Policy at U.K. Financial Services
11 Authority.

12 MS. ERHARDT: Thank you all. The second panel will
13 also focus on transition matters that might arise with
14 expanded use of IFRS in the U.S. and in particular by U.S.
15 companies.

16 The angle we would like to pursue is really the
17 experiences of others that have gone ahead. The panelists
18 either through their direct work, and maybe they can explain
19 that or I'll prompt them on that, have some exposure to the
20 movement to IFRS in other countries, to those policy
21 decisions, and then also to the on the ground aspects of
22 making the move.

23 We are trying to really go to school or learn what
24 those experiences entailed for the better or the worse, so we
25 can then try to relate those to the potential situation in

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1 the U.S.

2 In that regard, I think between Paul and myself,
3 and we will trade on and off, we would really like to probe
4 four subject areas, four topics, in the time we have
5 together.

6 First is just maybe the obvious, what happened when
7 IFRS was rolled out elsewhere. I will maybe narrow that to
8 the panelists individually. We would like to ask all of you
9 to join in on that.

10 The second question would be what did you do to get
11 ready or what was done to get ready in jurisdictions outside
12 the U.S., either that you participated in directly or that
13 you are familiar with from perhaps liaising with
14 international colleagues.

15 The third topic is any suggestions for the U.S.,
16 and then the fourth area in terms of suggestions perhaps is
17 in particular, timing and sequencing, since that seems to be
18 an area of consideration.

19 Then we will finish up as the other panels have
20 done with the chance for the panelists to make any comments
21 or remarks that don't get made along the way.

22 Moving back to the beginning, what happened, maybe
23 we will start with Jeff and just work our way down. Jeff,
24 from your role, it is really at the crossroads of capital
25 formation, I guess, going to market, doing offerings, pricing

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1 offerings, road shows, communicating with perhaps
2 institutional investors, what happened, meaning when Europe
3 or when other countries went to IFRS, and even maybe in the
4 period since then, did you see a change in how you did your
5 business or how offerings came to market or functioned or
6 were priced or were sold or was it an accountant thing, and
7 really, your work continued on?

8 Just any sense of that. If there really wasn't
9 anything different, that's fine as well.

10 MR. BUNZEL: I did solicit the views of my
11 colleagues around the world on some of the experiences they
12 had in this process. I think without exception, they all
13 described it as a success.

14 In particular, they talked about successful
15 transition both in the U.K. and the EU. There was certainly
16 not a view at least from an investment banking point of view,
17 that there were some serious problems with respect to how we
18 raised capital or how companies approached the capital
19 markets.

20 I think the biggest change, if you will, may have
21 come through in the way that the research analyst community
22 could look at companies in terms of comparability across GAAP
23 in Europe, so that instead of looking at different companies,
24 whether it is Italian or French or U.K. or German GAAP, that
25 they could look at things in a more uniform way.

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1 Of course, when we take companies public and we
2 raise capital, that kind of approach is very important
3 because we tend to focus on how to compare a new company to
4 companies that already trade.

5 The ability to have uniformity in terms of
6 comparability is very important, and in that sense, should
7 frankly be seen as something that all things equal should
8 reduce the cost of capital for companies who successfully
9 went through that process.

10 MS. ERHARDT: Bob, obviously your work is in the
11 U.S., and we haven't made this move. I have seen you at the
12 meetings. The standard setters from various countries get
13 together at least once a year in London. Maybe if you have
14 some anecdotes, et cetera, from liaising with your other
15 fellow standard setters, that would be appreciated.

16 MR. HERZ: We also meet separately from that with
17 other major standard setters. We meet regularly with the
18 Japanese. We meet now with the Chinese. We meet with some
19 of the continuing European standard setters.

20 I'd make three observations in that regard. First,
21 I think it is important to remember that -- believe me, I was
22 one of the original IASB members, so I have a fervor for this
23 movement -- when the IASB was first formed and we actually
24 sat together and it was kind of a dream kind of thing, trying
25 to get to where everybody is talking about now, almost seven

1 years hence, but let's talk a little bit about reality.

2 The reality is that major blocks of the world in
3 terms of the major capital markets, Europe is there, Hong
4 Kong is there, Australia, and a few other major capital
5 markets, many of the other places that permit or require
6 IFRS.

7 I think as Danita said, it's not necessarily really
8 IFRS, they base their standards on IFRS, they are more
9 smaller or emerging countries.

10 What is in process is that a number of other major
11 economies and capital markets, those being Canada, Japan,
12 Korea, China has standards based on IFRS, but most of them
13 have said at some date, a lot of them in 2011, we intend to
14 try and converge our standards between now and then, and make
15 a switch over in 2011.

16 There are still a lot of parts of the world where
17 this is in process and has not yet happened.

18 I think that the other thing is -- the great
19 thing -- it is narrowing significantly, narrowing the range
20 of standards that are used around the world and across the
21 different capital markets of the world. There has been this
22 fairly troubling emergence of different national variances of
23 IFRS that occur for two reasons.

24 One is the post-issuance as adopted processes in
25 different countries, to put them into their either GAAP or

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1 their national law, and they will adopt most of it but not
2 all of it. Sometimes, make changes or allow different
3 treatments.

4 Secondly, when countries adopt IFRS, the natural
5 reaction of companies in a country will be well, in order to
6 adopt it, what do I have to change or what is the minimum
7 that I have to change. From a company point of view, it is
8 costly to make those changes.

9 Because IFRS is quite broad, often existing
10 national standards may be in conformity with IFRS. There is
11 a threat that unless we make some movements here, which I'll
12 talk about later maybe under item four, that this kind of
13 dream could end up as being a little bit of a Tower of Bable
14 under a common label. We need to work on that.

15 Thirdly, my observation is that foreign countries
16 or regions who say they are going to move to IFRS, they put
17 together a well thought out plan that involves all the moves
18 that need to be made and actions that need to be taken to
19 adjust their infrastructure to support that move.

20 MS. ERHARDT: I can think of a few follow up
21 questions, but let's continue on. Dina?

22 MS. MAHER: At Fitch, we ensured that our criteria
23 between rating companies was consistent, and we were able to
24 compare, and we have always been able to compare, we had GAAP
25 polyglots in Europe before, and now it is a little bit

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1 easier, that we can compare companies across national
2 borders.

3 We also found that disclosures and transparencies
4 through the convergence process itself has made -- there is
5 more consistency among issuers. There is also more
6 consistency in accounting treatments across industries as
7 well. We have definitely seen a positive there.

8 Our data collection efforts were enhanced with the
9 ability to go on one platform. We found generally it has
10 been a positive experience.

11 MS. ERHARDT: Jack?

12 MR. MCGINNIS: Just a couple of points on this. I
13 think first in terms of the planning, in discussion with my
14 colleagues in the U.K. who were really on the ground during
15 all the implementation as part of HSBC's global adoption of
16 IFRS back in 2005, there are tactical items that have to be
17 dealt with in terms of the clear plan for global integration
18 of a mapping system of accounts and those types of things,
19 and capturing all your transitional differences.

20 Obviously, all of that was a major part of our
21 experience. Going beyond that, I think one item outside of
22 the technical part of it was really working with the
23 implementation committees, being an active participant in the
24 industry, in discussions of exactly some of the issues that
25 were coming up.

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1 I think at the earlier panel today, they talked
2 about the fact that some of the IFRS standards were still
3 evolving during the implementation period once it was
4 announced.

5 For us, that was extremely important as one of the
6 larger companies adopting IFRS, to be a very active
7 participant in those industry forums. That was key.

8 I think as Richard will attest to, in putting
9 interested parties like the regulators in those discussions
10 was critical as well.

11 MS. ERHARDT: Sam, how about from an auditing
12 perspective and trying to get auditors ready?

13 MR. RANZILLA: I think your second question about
14 what to do to get ready, and I'll leave the training to that,
15 but let me bring up one of the aspects of a global standard
16 that accounting firms and the auditing firms need to deal
17 with.

18 It's the idea that no one country owns that GAAP
19 any longer. In the world that we came from, the U.S. owns
20 U.S. GAAP today. The Germans own German GAAP. We realized
21 fairly early in the process that we needed to build a global
22 infrastructure around the application of IFRS so that there
23 wasn't different variations of IFRS, simply because of our
24 local practices, being allowed to apply IFRS as they deemed
25 fit.

1 That said, this global infrastructure provides some
2 very high level guidance around the application of IFRS.

3 We identified the need fairly early to put in a
4 global infrastructure, to have buy in from all the major
5 constituents that were converting over to IFRS, to have the
6 ability for the global organization to deal with conflicts or
7 disagreements between member firms as to how something ought
8 to apply, and to try to drive as much consistency as we
9 possibly could.

10 We had always done that from an auditing
11 perspective, auditing standards. I say "always." For some
12 time now. We have always driven our international auditing
13 off the international standards and then local countries tack
14 onto that.

15 The accounting was clearly -- that was one of the
16 more significant aspects of the convergence to IFRS outside
17 the United States.

18 MS. ERHARDT: Richard, on the what happened, first
19 of all, thank you for traveling the farthest to get here, all
20 the way from the U.K. We certainly appreciate that.

21 As I have some inside knowledge from working with
22 you, the U.K. FSA's role is both as a securities regulator
23 and as the prudential regulator for banking and insurance.

24 Maybe when you talk about kind of what happened,
25 you could cover all three bases to the extent it is any

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1 different.

2 MR. THORPE: In the other panel, there was quite a
3 bit of discussion of what happened in Europe. It wasn't
4 straightforward. 7,000 European groups had IFRS imposed on
5 them in 2005. That decision was made in 2002. European
6 decisions are never straightforward, which meant there was
7 absolutely no point in anticipating it because it could have
8 changed right up to the last minute.

9 There was nothing to be gained from thinking about
10 what would happen before the final decision was made.

11 Furthermore, the IASB launched a major process of
12 improving its standards of introducing leadership standards
13 on business combinations, stock options, and others.

14 And for the first time, having a standard on first
15 time adoption. Those standards continued to evolve, right up
16 until I think the end of December 2004.

17 We didn't actually have a stable platform until
18 very late in the day. This imposed an enormous burden on
19 companies. Remember, these are 7,000 companies in 15 member
20 states, I think, who had very different accounting frameworks
21 based on the same directive, but they evolved in very
22 different ways.

23 As European securities regulators, as noted in the
24 earlier session, we developed some guidance on the
25 disclosures we would expect to see during that transition

1 period.

2 I was very pleased that was raised in the early
3 session because it was very difficult to get through the
4 process in Europe. There was a great deal of resistance to
5 what we proposed. It really was to expect companies to make
6 disclosures about their intentions in 2003, the major
7 differences by 2004, and then by the 2005 entrance, actually
8 to start using IFRS concepts.

9 Even that wasn't straightforward because one or two
10 of the standards hadn't actually been endorsed for use in
11 Europe by the time the accounts were prepared in 2005. There
12 was some confusion there.

13 As a prudential regulator, regulating among others
14 HSBC, we felt that the biggest issues for the transition for
15 the U.K. were the issues surrounding financial instruments,
16 because the standardized is extremely difficult to understand
17 in the best of times and was going through the process of
18 change throughout that period.

19 We came up with some short term fixes that would
20 give the softest landing for prudential purposes for those
21 banks, that we make as few as possible changes from the way
22 they were currently calculating their capital to the way they
23 were calculating it going forward.

24 That involved things like securitizations, which
25 are very topical at the moment, from the accounting, so if

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1 there was an accounting change, we wouldn't have to change
2 our system of regulation.

3 Changing the way we dealt with netting, and
4 otherwise trying to give much the same answers under both
5 sets of GAAP.

6 One of the things that perhaps you are not aware of
7 is that the IFRS regulation in Europe only applies to the
8 consolidated accounts of listed groups. It does not apply to
9 solo companies. It does not apply to solo companies who have
10 listings.

11 In the U.K., we introduced an option, or the
12 Government did, that any company can now use U.K. GAAP or
13 IFRS. That is their choice. Private companies can use IFRS
14 as well as U.K. GAAP, which means as a prudential regulator,
15 we have to have systems that will address both national GAAP
16 and IFRS, and try to get the same prudential answer.

17 It also means that Revenue has to be prepared to
18 accept accounts under both systems, and that will continue
19 for the foreseeable future.

20 MS. ERHARDT: To those last points, is the option
21 to switch from U.K. GAAP to IFRS perpetual, and do you have
22 any sense of what people have done in the last couple of
23 years?

24 MR. THORPE: Yes. Interesting question. Any U.K.
25 company that has no subsidiaries but is listed can continue

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1 to use U.K. GAAP. We don't have brilliant statistics on the
2 number of those that are, but there are significant numbers.

3 Any company that is publicly traded but not on the
4 official list currently can use U.K. GAAP. Subsidiaries of
5 groups are expected to use the same accounts throughout the
6 group. If HSBC moves to IFRS, they are expected to use IFRS
7 for all U.K. subsidiaries, but that's not obligatory.

8 They can continue to use U.K. GAAP if there is a
9 good reason to do so. That good reason clause has been
10 fairly literally interpreted by companies.

11 They may stay on U.K. GAAP for their subsidiaries
12 for tax reasons or because of the difficulties of calculating
13 pre-acquisition reserves, or simply because there is quite a
14 burden for full compliance with IFRS if you are a wholly
15 owned subsidiary. Some of the disclosures you have to make
16 go beyond what is actually useful.

17 There are those issues. A lot of large private
18 companies still use U.K. GAAP, but there is quite a big
19 hurdle if you want to get publicly traded, eventually to move
20 into IFRS. We expect there to be greater movement, but there
21 is no obligation to do so.

22 MS. ERHARDT: Just one more general what happened,
23 human nature question for anyone. Paul, I'll call on you in
24 a minute. I haven't forgotten about you.

25 The other countries seem to have taken an approach

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1 of set a date certain, not necessarily an option beforehand,
2 sort of an all hold hands and jump off together.

3 How did the preparation curve react to that? In
4 any of your lines of business, either your own, colleagues,
5 or your clients, were most people procrastinators to this run
6 up date or was it spread? What happened in terms of getting
7 ready in your different lines, like at the rating agency or
8 Jeff, in your work?

9 Was there any sense of how the work was spread when
10 the country set a date certain, that type of a model?

11 We can come back down the line if people want to
12 reply.

13 MS. MAHER: What we saw was really a flurry of
14 activity in the last year/year and a half prior to the
15 adoption. A lot of training going on. A lot of resources
16 dedicated to getting a good understanding prior to the
17 adoption.

18 Really, we didn't see it as a multi-year effort in
19 Europe but rather a flurry prior to the date certain.

20 MS. ERHARDT: Would that be both at your own firm
21 and at your customers?

22 MS. MAHER: At both Fitch and the issuers.

23 MS. ERHARDT: Jack, how did HSBC internally get
24 ready time line-wise?

25 MR. MCGINNIS: I think earlier this morning we

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1 talked about the difficulty of trying to prepare for
2 something years in advance, the fact that it isn't really in
3 practice yet.

4 I think it's fair to say that a company of our
5 size, there were very significant implementation issues we
6 needed to work through. As a result of that, I think the
7 establishment of the industry committees and those forums
8 were really critical in allowing us to prepare for that.

9 Due to the evolution of IFRS during that period, by
10 default, some big significant parts of that implementation
11 actually happened in the latter part of that three year
12 period.

13 That was a significant focus for us approaching the
14 ultimate implementation based on my discussion with
15 colleagues who were on the ground at the time.

16 MS. ERHARDT: The industries kind of got together,
17 the controllers or what not, in financial services in your
18 case? Did they sort of just grassroots got together or maybe
19 they had forums where they got together to talk about things
20 anyway?

21 MR. MCGINNIS: Yes, there were actually forums
22 established. I think looking at the environment at the time,
23 there were a lot of companies that really needed a mechanism
24 to be able to vet these types of issues. I would say there
25 was a very good mix of formal committees, if you will, but

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1 there was also a very informal network of similar industry
2 type clients working together to talk through implementation
3 issues, and based on those other discussions, it would be
4 raised more to the formal committees and so forth.

5 MR. CHERRY: Julie, if I may comment on it
6 prospectively, because we haven't changed over to IFRS yet,
7 but in the course of canvassing all of our stakeholders, one
8 of the first things they emphasized was the Board had to set
9 a date. Until you do, not much of anything is going to
10 happen.

11 Picking the date is tricky, but actually, the
12 consensus view was that the further out you go, perhaps
13 thinking that might help the process, it actually creates
14 more problems than it solves.

15 It gets really difficult to predict what the
16 standards in force will be, which is an important issue, and
17 the preparer community told us point blank that until they
18 knew with certainty what the date is, they couldn't justify
19 putting the appropriate effort into it.

20 It was interesting how the mood changed very
21 quickly once we had consensus that the right decision is to
22 adopt IFRS, then just about everyone said get on with it.

23 There are some important things that take time to
24 get done, but the pressure has been on us to accelerate
25 rather than decelerate, and even though we intend to sort of

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1 hold hands and jump over the cliff, increasingly, we are
2 getting the question can we adopt early if we're ready.

3 It is amazing how that has changed in a relatively
4 short order.

5 The other thing that we didn't quite anticipate was
6 our intention is to have the public companies adopt IFRS
7 first, but there is already a very significant nucleus of
8 private companies in Canada, and I suspect this would be even
9 more of the case in the U.S., who are already using IFRS
10 because they are feeding IFRS financial reporting chains in
11 Europe or we have large holding companies here who have
12 significant operations abroad and in jurisdictions that are
13 already using IFRS.

14 We are getting pressure from our private companies
15 to move faster as well, which is interesting.

16 MR. DUDEK: I would like to sort of go back in
17 time. We heard in the last panel that U.S. companies, even
18 the most forward looking U.S. companies, are sort of at early
19 stages of sort of evaluating what they would do if IFRS was
20 either an option or mandated, kind of from the U.S. point of
21 view.

22 This group has some experience in terms of thinking
23 back, you know, what was the planning process and how did you
24 sort of put that in place within your organizations and how
25 did you see that also being rolled out at your clients and

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1 your customers in terms of either the accounting firms or the
2 analysts or the investment banks or from the regulators'
3 point of view?

4 Thinking sort of where we are, you know, where this
5 community was at four or five years ago.

6 Richard?

7 MR. THORPE: Paul, the biggest issue for us in
8 Europe was that we didn't have a standard on first time
9 adoption for a long period of time that we were thinking
10 about how to go about it.

11 I remember one EU member stated it wanted to go
12 early, and the rest were urging them not to, because if you
13 went before the standard was in place, you had to apply
14 everything in full.

15 There was no incentive at all before it was
16 actually absolutely necessary to do so.

17 There was a suggestion when we first started
18 looking at this, maybe in about 2001, that the date for
19 implementation would be 2010, and that was brought forward
20 for all sorts of technical reasons.

21 In hindsight, that was the right thing to do. We
22 wouldn't have gained anything from sitting around an extra
23 five years, and it's much better to get on with it.

24 This had all of the classic regulatory courses. It
25 could have gone horribly wrong. We could have had 7,000

0106

1 European groups producing complete garbage in early 2006.
2 They didn't. Just as the Y2K issue, the world didn't
3 collapse.

4 I don't know how much credit we can take for having
5 that happen. I don't know that I can point to things that we
6 did as regulators that tipped the balance.

7 I think our paper on first time adoption on the
8 transition was helpful. I remember also that we had some
9 sessions with the leading representatives of the accounting
10 profession through the European Federation of Accountants,
11 where we reminded the profession that they needed to start
12 reminding their clients, and they went around and spoke to
13 all the professional bodies in Europe.

14 I also remember all sorts of anecdotes about people
15 meeting socially, well, I haven't heard of IFRS. The clock
16 was ticking and we were getting closer and closer to it.

17 I think the key things for us were tight deadline
18 and clear need to move. If you want to change the side of
19 the road you're driving on, you don't do it gradually, you do
20 it overnight. I think that was the right answer for us.

21 Why was that particularly the right answer in the
22 EU? Because we had so many different bases of accounting,
23 that any gradual change would have been hugely misleading.

24 We had to get everybody on the same basis at the
25 same time pointing in the same direction, and we managed to

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1 do that.

2 MS. ERHARDT: As the regulator, did you have any
3 particular programs for investors, even retail investors, or
4 did they come to you and ask? Do you have a sense if they
5 didn't come to you and you didn't offer anything, how that
6 kind of got taken care of through market forces?

7 MR. THORPE: I think when we did the transition
8 paper, it was investor groups that were sometimes dubious
9 about this additional information being provided because it
10 wouldn't necessarily be reliable. We said no, you need it.
11 You do need to know as investors what is happening in the
12 companies you are investing in.

13 For us in the U.K., the differences between IFRS
14 and U.K. GAAP had never been huge, partly because IFRS was so
15 broadly written that there couldn't be many differences
16 between anybody's standards and IASB, but also because for 20
17 odd years, the IASB had always explained the differences
18 between their standards, and the U.K. IASB had a program of
19 convergence that was ongoing.

20 The issues weren't huge in the U.K. markets. They
21 were elsewhere in Europe. I don't have anything on how they
22 dealt with that.

23 MR. DUDEK: If the roll out of IFRS in the EU was a
24 success, as we are looking at private market participation,
25 and looking to Sam and Jack, sort of perhaps talk about sort

1 of what it is that you were thinking in the early years in
2 terms of what was it that brought about that success in terms
3 of we heard in the last panel of how financial reporting is
4 communication and how that communication sort of was planned
5 as IFRS was rolled out through either your clients or at
6 HSBC.

7 MR. RANZILLA: I can't speak for HSBC, for a lot of
8 reasons. I think when you look at this -- we have spent a
9 lot of time looking at this in the U.S., but I will try to
10 stay away from what we are planning to do and talk to you
11 about what I saw happening around the rest of the world.

12 This is a very significant sort of changed
13 management process, that is basically what it is. It's a
14 process where you have to identify what the differences are.
15 You are identifying them, what system changes, what training
16 changes have to occur, and as a part of that, you have to
17 identify what contracts are subject to change and what kind
18 of implications there are, for example, for governance or any
19 other contractual obligations that you may have, with respect
20 to the use of a particular set of accounting standards.

21 Then the disclosure of where you are along that
22 path. Richard mentioned the different scenarios. I think I
23 heard you say you got a lot of push back from the auditors
24 and the preparers, and I think there might be actually some
25 good reasons for that.

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1 People were along different parts of the path. At
2 least our experience was there were certain companies that
3 jumped out, put their plan into place, much in the same way
4 that we experienced here in the U.S. with internal control
5 reporting.

6 Some companies jumped out, did a dry run in 2003,
7 others said I'll wait and I'll let certain things evolve
8 until I devote a lot of resources.

9 I think we saw it. I think the best I could
10 characterize it would be the largest companies got started
11 earlier and the smaller companies got started later, and I
12 don't think I'm going to win any awards for the insight of
13 that particular comment.

14 MR. RANZILLA: I don't know if I answered your
15 question, but the communication aspect of working with the
16 users of your financial statements to avoid a fallout with
17 respect to when you do first start reporting is important,
18 just the same way with SAB-74 type disclosures on steroids.

19 That is the form of communication. I think it
20 actually worked fairly well, even though people were at
21 different points along the continuum.

22 MR. MCGINNIS: I would agree with Sam's comments.
23 I think the other point, I talked earlier about the tactical
24 type items in terms of the plans and the involvement, the
25 active involvement in the committees.

0110

1 I think one point that shouldn't be missed is a lot
2 of the foreign private issuers were already very familiar
3 with U.S. GAAP because they were reconciling to it. I think
4 one point that actually is quite significant is the
5 convergence that has occurred between U.S. GAAP and IFRS.

6 I think for that reason, that's one reason why we
7 believe that actually foreign subs or foreign private issuers
8 should be able to accelerate the adoption of IFRS.

9 In the U.S., for example, we have two SEC
10 registrants that are wholly owned subs of HBSC. They file
11 U.S. GAAP as an U.S. based SEC registrant. We actually
12 reconcile to IFRS in our results. Actually, even in our
13 customer group reporting, we do that on an IFRS basis.

14 I think on a quarterly basis, we reconcile, and if
15 you look at the nature of our reconciled items, it really
16 does show that there has been huge progress in the
17 convergence. I think with fair value options coming into
18 play next year, for those who haven't already adopted in the
19 U.S., that will eliminate one of our major differences
20 between U.S. GAAP and IFRS.

21 I think going back to the implementation efforts, I
22 think that core base of knowing U.S. GAAP for foreign private
23 issuers for filing purposes was actually very helpful in
24 adopting IFRS.

25 MR. CHERRY: If I could just come in on that point.

0111

1 Speaking as a standard setter, I would say the most important
2 thing that we have been doing is communications. This isn't
3 your typical technical standard setting project.

4 We found it took a tremendous effort to engage a
5 lot of our stakeholders who don't deal with us as often as we
6 might like.

7 That is where I would put absolute top priority.
8 When you have that conversation, and to the last point that
9 was made, a lot of people sort of put off, gee, I don't know
10 much about IFRS, but in fact, they really do.

11 We tried to come up with a strategy that emphasized
12 the common ground, without over simplifying it and without
13 trying to dismiss the difficulties.

14 When you analyze it in terms of the massive amounts
15 of similarities, and you give people the quick history
16 lesson, because we discovered tremendous lack of awareness of
17 what has been done behind the scenes for the last 15 or 20
18 years, when that was sort of put out and then we found what
19 people really want to know is where are the unavoidable
20 conflicts between, in your case, U.S. GAAP and IFRS.

21 It is a relatively short list. We found once we
22 put that in context, it made the communications a lot easier.
23 People could sort of get a sense of prospectus. Then you
24 could go on to deal with some of the technical issues.

25 MR. DUDEK: Bob?

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1 MR. HERZ: I just wanted to echo a point that I
2 think Richard made and that Sam alluded to. As part of any
3 plan, you can put in SAB-74 type disclosures at an earlier
4 date to kind of incentivize people to begin identifying those
5 differences and understanding.

6 As I've read plans in other countries, I think
7 probably Paul's plan actually includes that kind of activity
8 also, well before the 2011 date they contemplate for the
9 switch over.

10 MR. CHERRY: That's right. I'm glad to hear those
11 disclosures were well received in Europe.

12 MS. ERHARDT: I was just going to maybe bring Dina
13 and Jeff into this conversation. The two of you are kind of
14 out there in the capital markets where the offerings are
15 taking place, being priced, being rated, in the case of Dina.

16 Were there any particular things that your firm or
17 your industry -- you are not the accountants -- did to get
18 ready? We have talked a lot about what the accountants did
19 to get ready. Was there a big ramp up for your own function,
20 rating securities or underwriting or not, or maybe there
21 wasn't to date because the transitions have been outside the
22 U.S., but you would maybe envision it differently in the
23 U.S.?

24 Just speaking to your function in the process, how
25 do you see the "get ready" aspect?

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1 MS. MAHER: We actually had quite a bit of training
2 throughout the world, especially in Europe, as the
3 convergence happened, to make sure that all the analysts were
4 familiar with IFRS and the changes that would happen country
5 to country.

6 For that process, we actually brought in some
7 outside experts to assist in that matter, and some we were
8 able to do on our own.

9 We actually think that some of the convergence
10 efforts that have been ongoing here in the U.S. is going to
11 make that a lot less dramatic than we saw in Europe because
12 if you think about all the dramatic changes that are
13 happening to accounting now, it's happening gradually as you
14 see the fair value accounting changes, the insurance model
15 proposals that are out there, the financial statement
16 presentation project that is out there.

17 Those all have potential for change. I don't think
18 the convergence to IFRS is going to be any more dramatic than
19 those changes are as they get incorporated into the body of
20 U.S. GAAP currently.

21 MS. ERHARDT: How about the capital market
22 underwriting? Were you guys all getting ready or training or
23 not so much?

24 MR. BUNZEL: Much less, I'm sure, than has been
25 communicated by the rest of the panelists. I think in a

0114

1 couple of areas, and there was a reference to this in the
2 earlier panel, we had our research groups educating our own
3 sales forces as well as through them to investors, what some
4 of these changes really constituted.

5 That was an element both across the board and in an
6 overall sense as well as in individual sectors within which
7 companies operate.

8 In addition to that, the various committees that
9 make underwriting commitments, there needed to be a
10 communication of familiarity with what these changes
11 represented, and therefore, what we needed to be looking for,
12 whether it was an investment banking committee, an equity
13 valuation committee, or some other process through which we
14 were making a commitment of the firm.

15 There are things that needed to be done, but I
16 would say on a much lower level than what we are talking
17 about here. I would also echo the comment that I think at
18 the end of the day here in the U.S., that transition is
19 likely to be somewhat easier, and maybe not as condensed in
20 terms of time as we talked about, and also because there is
21 both the past experience of many of the others who are
22 participating here that we have learned from, and much of
23 this is very topical, so people are already beginning to
24 think about it today.

25 MS. ERHARDT: We talked about other countries sort

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1 of had a date certain and Paul had mentioned the pleas he is
2 getting for that. Do you think that helps in your part of
3 the business as well, a date certain versus an optional
4 period, or if the deal is ready to come, you are smart enough
5 to figure out how to get ready?

6 MR. BUNZEL: Our markets, the one thing they
7 probably like the least is uncertainty. Certainty is
8 generally a good thing. Having said that, I don't think
9 choice is a bad thing either.

10 Some combination of the certainty of a mandate and
11 a choice which allows early adopters to participate seems to
12 me to make eminent good sense.

13 MR. DUDEK: Sort of looking at the past and the
14 roll out of IFRS around the world, are there any
15 recommendations for us just in terms of a transition year?

16 I was thinking in particular about the CESR
17 guidance and how that was accepted and whether there were any
18 frictions that resulted from that, and also is it just some
19 things we have heard about whether there should be an
20 additional reconciliation to U.S. GAAP for a period of time,
21 more than that required by IFRS-1?

22 Should it be the U.S. GAAP system just turned off
23 at the beginning of a fiscal year and then IFRS going
24 forward, or should there be some sort of transition period?

25 I don't know whether any of the panelists can talk

0116

1 about the transition year and what we can think about in
2 terms of U.S. companies rolling out IFRS.

3 Richard?

4 MR. THORPE: I can comment on how the transition
5 actually works and that end of it. We had the CESR statement
6 and we discussed that. The way that CESR works is we
7 couldn't make that obligatory. It had to be best practice.
8 Some countries made it obligatory, others didn't, and in the
9 U.K., it was best practice. It was widely but not
10 universally followed.

11 The down side of that was we invited companies to
12 start thinking about what they thought the biggest issues
13 would be, and to start quantifying those. There was a
14 reluctance to quantify because they said it might be the
15 wrong answer. But the first look at the standard might give
16 you an answer and a later look would give you a different
17 number.

18 Nonetheless, we pushed ahead and said, no, even
19 something that you may later decide is wrong is better than
20 nothing at all, and at least it would give companies some
21 idea of what they should be looking for.

22 We also had major issues in the first year of
23 entrance because of the confusion about the points at which
24 IFRS becomes compulsory, compulsory from January 1, 2005 or
25 from December 31, 2005.

0117

1 You have to do your interim account consistent with
2 information you have given in the past or consistent with
3 information you will provide in the future. We never
4 actually said clearly what the right answer was.

5 In terms of continuing reconciliation, there is no
6 up side to it. It's difficult. You are going to have to
7 keep two sets of books. Once you decide to move to IFRS,
8 that is a decision you have made for all sorts of reasons.

9 In theory, you should not be managing a business
10 internally consistent with the accounts you are producing to
11 shareholders. Otherwise, you are not adding much value to
12 them. It's pretty hard to ask companies to continue to work
13 up what they would have done if they had applied U.S. GAAP.

14 The other concept we discussed in CESR is leasing.
15 If you get a model with some subtle differences between the
16 two sets of GAAP, there is absolutely nothing to be gained
17 from saying this is a finance lease under IFRS but it would
18 have been an operating lease under U.S. GAAP or vice versa.

19 If your intention was to achieve finance lease
20 accounting, then you would have done it slightly different if
21 you had been under U.S. GAAP.

22 In my view, there is nothing to be gained from that
23 continuing reconciliation.

24 MR. HERZ: I'd offer the following thoughts.
25 First, I think it is kind of dependent on cataloging what you

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1 think are the major issues, how to deal with them. That is
2 not going to give you certainty but at least it will kind of
3 give you an idea of the magnitude of the task.

4 That having been said, I think it has been said
5 before that there is a number of major capital markets that
6 have targeted 2011. That is a date that we might start
7 thinking about or some time around that time frame.

8 I also think as mentioned in the prior panel that
9 maybe it could be phased. It could be for accelerated
10 filers, one year. We seem to have a rich tradition
11 developing in this country on that kind of thing.

12 What I don't think you can do is stretch it out too
13 long and create a two GAAP system for too long.

14 There are significant differences right now between
15 the two sets of GAAPs. There are numerous differences and
16 across the capital markets, they can result in major reported
17 differences between the two sets of numbers. Studies have
18 shown that.

19 You don't want to perpetuate a two GAAP system for
20 too long. It has all sorts of negative network externalities
21 for most participants in the capital markets to do that.

22 I agree with what's been said by other people. If
23 we are going to make the move, let's plan it out and let's
24 figure out what the right date or dates might be. Let's not
25 just kind of throw out a general option there that might

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1 actually have the effect of actually delaying it, undermining
2 the further convergence, and really just embedding a two GAAP
3 system here.

4 MR. CHERRY: I would echo that. The view here
5 seems to be to get on with it quickly. Even to the point now
6 where we haven't yet reached our 2011 date, but already we
7 are changing our system to tell our stakeholders they really
8 need to be monitoring IFRS and IASB decisions today because
9 those are the standards that we are going to have to live
10 with in 2011. You can't wait until 2011 or whatever the date
11 happens to be.

12 One of the sensitivities that we had was nobody
13 really wants change if they can avoid it, but even worse,
14 they don't want to have to change the same thing twice.

15 We did look and try to project where the IASB work
16 program was likely to be in the change over a year and what
17 sort of major projects or standards would likely be in a
18 state of flux.

19 We found that was a key factor in pointing us
20 towards 2011 because you will never get a totally stable
21 situation but we expected to be a relatively stable period,
22 and it sort of allows the system to get on and then deal with
23 the new standard on insurance, for example, when it merges.

24 That definitely was a major factor for many of our
25 people saying look, we will make our system changes once but

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1 we don't want to have to turn around and do it a second time
2 a year or two afterwards.

3 MS. ERHARDT: Paul, just a follow up question. For
4 those companies in Canada that really don't have operations
5 outside of Canada, are they resistant to a mandate, that you
6 must move, which is you end up bringing them a cost no matter
7 what, versus an option scenario which allows them to optimize
8 their position, and in this case, on Canadian GAAP, if they
9 think that is really the optimal spot for them.

10 Did you have any feedback on why do I have to do
11 this, it isn't going to help me type sentiment?

12 MR. CHERRY: Not very much. We have a lot of small
13 cap public companies. Initially, there was some sentiment in
14 that sector that this might be too onerous for them. That
15 evaporated very early on. They did not want a stigma put on
16 their market as being inferior or second class to the others.

17 There is an ongoing discussion of where they stand
18 in the resource chain. Clearly, our biggest issuers will get
19 first call on our resources, so we are sensitive to make sure
20 that there is sufficient technical support available to them.

21 The mood there seems to be they realize they will
22 come to the table at the tail end of the process. They seem
23 to think that is manageable. Someone said they probably
24 wouldn't do it any earlier even if they could.

25 I think it is more a question of making sure that

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1 the support is there to help them at whatever the date is.

2 Another factor in this discussion is your choice of
3 dates and if you phase them in, it might make sense, then one
4 consequence of that is your IFRS-1, which is a huge carrot to
5 make the transition easier. It is very date dependent.

6 The benefits of IFRS-1 will differ depending on
7 which tranche you are in. That's not necessarily a bad
8 thing.

9 I think we recognized that IFRS-1 is too date
10 specific. I think if you looked at it, you would probably
11 have a similar reaction. We are already exploring ways where
12 we think some of that relief can be stated in general terms,
13 so that it would provide significant and appropriate relief
14 for any country no matter whether they happen to pick 2011 or
15 2013 or whatever.

16 Right now, some of it is very, very date specific.

17 MS. ERHARDT: Thanks.

18 MR. DUDEK: Sam?

19 MR. RANZILLA: I just want to sort of pile on here.
20 I think it is important to set a mandatory date and to have
21 whatever you want to call it, blueprint, road map, that takes
22 you through the different steps.

23 I think the first step is you have to decide that
24 you want to go to IFRS. I think an experiment would be a
25 terrible idea to say let's throw it out there and see what

1 happens. People go back and forth.

2 Our comment letter does identify some things that I
3 think have to be addressed about the IASB itself, its
4 funding, and certain elements of its governance before we are
5 prepared to say this is going to be our set of standards, and
6 work towards that, and then to develop a time table that
7 includes a period of optionality or early adoption.

8 I would be a proponent of a very tight period of
9 optionality. I probably wouldn't oppose a steeling of the
10 adoption of IFRS, in other words, large accelerated filers
11 first and the rest to follow. Again, I think it would have
12 to be in a fairly tight time line.

13 I do think it is important to have a plan with some
14 dates specific for all of us to work against that.

15 From a training perspective, at least from the
16 firm's perspective, one of the real challenges, and I think
17 Danita or Gary may have mentioned it earlier, is you train.
18 If somebody doesn't use it within a certain period of time,
19 you have just wasted the training. The retention just
20 doesn't work until you apply it.

21 A date certain is very important from that
22 perspective. I don't think that training element is just
23 unique to the accounting firms. There are a whole lot of
24 people to be trained here.

25 MS. ERHARDT: The training, is that why your

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1 earlier comment about having an experiment, which I sort of
2 equated to the idea of a perpetual option, you said that
3 would be a disaster? That wouldn't be very good. Is the
4 down side of that -- what are the down sides of that that you
5 think are just overwhelming of any benefit?

6 Is training one of them? Are there other points?

7 MR. RANZILLA: I think there are a lot of different
8 answers. I could look at it from the accounting firm's
9 business model, having a basic -- you would have to decide
10 your business model between what I will call a bifurcated
11 business model or a bilingual business model.

12 In other words, you make everybody in your firm
13 bilingual so that you can move them from IFRS and you are
14 completely agnostic about when you look at scheduling people
15 and assigning jobs, you are looking at their skill level, not
16 whether they are on team IFRS or team U.S. GAAP, or you can
17 go a different way.

18 That is sort of a small piece of the issue. The
19 firms will get over that. I think Bob is about ready to jump
20 in here. I'll defer to Bob.

21 MS. ERHARDT: We are sort of segueing naturally to
22 the fourth area we wanted to probe, in particular, timing,
23 sequencing. We will go to Bob. I would like to get
24 everyone's input.

25 MR. HERZ: I think the issue that Sam outlined is

1 going to be applicable to many other market participants. If
2 you are essentially running a two GAAP system for any
3 significant period of time, you need an infrastructure to
4 support both of those.

5 Therefore, to a certain extent, although there are
6 commonalities, there are also differences. There are
7 different pressures on each. We see that in standards
8 setting. If you want to maintain U.S. GAAP and have us
9 converge, we have to do both. At points in time that
10 actually risk diverging because of the pressures of one
11 system versus another.

12 I think more importantly, just a period of
13 optionality shifts the burden of complexity from the preparer
14 community, individual preparers who would like to avail
15 themselves of it and join a different system, to the users.

16 For some users, it may be beneficial for people to
17 go on IFRS for certain large global companies, in fact, most
18 of the companies are already on IFRS in that market. As I
19 said, because a lot of countries are not yet on IFRS, I don't
20 think that is the case in many major industries. It may be
21 in certain ones.

22 The issue of having optionality just imposes or
23 creates a two GAAP system and you want to minimize the period
24 of that. It creates extra burden and confusion for a lot of
25 different people.

1 MS. ERHARDT: Even if the Commission were to go to
2 a requirement, do we still have the down sides as you put it
3 of a two GAAP system in the U.S. with respect to private
4 companies?

5 In other words, do we avoid them by doing a
6 requirement versus an option, or do we shift the --

7 MR. HERZ: I think that is a major issue, and what
8 we are going to have to deal with as the standard setter for
9 private companies, but my own guess is if we were to go to
10 IFRS, the private companies would migrate that way, or to the
11 SME, likely the SME version of IFRS.

12 I think in this country, we have historically
13 avoided having a two GAAP system between private companies
14 and public companies. There is a certain number of small
15 differences, but the whole system is vertically integrated.

16 I can tell you while we have addressed the issue of
17 whether there ought to be different standards or differences
18 for private companies, unanimously, people said do not create
19 a two tier GAAP or a two GAAP system.

20 MS. ERHARDT: Jeff, you work with private equity.
21 If you're not ready, you don't have to jump in now, but maybe
22 when you comment on timing and sequencing, you could also
23 think about what you think private companies might do.

24 MR. BUNZEL: Sure. I'm happy to jump in. I think
25 in terms of timing and sequencing, it doesn't sound as though

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1 there is a great deal of disagreement among the group that
2 what you are hearing is it is probably a good thing to have a
3 mandate. You need some transition period but don't make it
4 too long or it becomes counterproductive.

5 During that period, I think you should trust market
6 forces and choice and let certain companies opt into it
7 earlier. I think that will help make the transition easier,
8 frankly, through that experience.

9 Having some sort of accelerated filer kind of
10 approach that allows that to happen seems to me to make good
11 sense.

12 I don't think there is a big disagreement, it
13 doesn't sound like, in terms of approach and timing.
14 Obviously, 2011. Could it be earlier? You are going to get
15 political pressures to make it later. Who knows; right?

16 That is the Chairman and the Commissioners'
17 difficult choice.

18 In terms of private companies, I would think if you
19 are a private company and you see IFRS coming down the pike
20 right at you, you are going to make a transition soon.
21 Otherwise, you are going to lose the optionality of being
22 able to go public on your time table.

23 It would seem to me that of all the constituencies,
24 you may find that private companies begin to make that
25 transition fairly quickly in order to retain their options.

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1 MS. ERHARDT: Dina?

2 MS. MAHER: We also are strongly against having a
3 two GAAP world and an indefinite option to allow for multiple
4 financial statement systems.

5 We had a lot of debate internally as we were
6 preparing our comment letter as to if we think there will be
7 an option, how long do we let it go. The number most people
8 were comfortable with was about three years. I think more
9 than three years, everybody started getting queasy as to the
10 impact that would have on our ability to make sure the
11 appropriate people are trained within industry groups, within
12 different sectors.

13 Without knowing how long that option is and how
14 long that option would last, it would really lead to
15 inefficiencies.

16 That being said, we didn't think that it was
17 appropriate for -- we thought it was more appropriate for the
18 market to determine who would take the option as opposed to
19 mandating a phase in. We thought the issuers would be better
20 able to decide whether or not they would benefit from early
21 adopting as opposed to the mandatory adoption.

22 We didn't think that a mandatory phase in was the
23 appropriate path to get there.

24 Our main concern is the quality of the financial
25 statements. We really think that the United States needs to

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1 build up an understanding of how to apply principles and how
2 to use those best practices that are now out there throughout
3 the world.

4 We would definitely prefer to see U.S. GAAP
5 financial statements that are prepared by experts as opposed
6 to IFRS financial statements prepared by inexperienced
7 issuers.

8 MS. ERHARDT: Could that imply that even if there
9 were the model you suggest, that other than Jack's company
10 who already has IFRS statements all prepared and audited,
11 that you wouldn't want an option effective immediately
12 because you think you need a little period for people to ramp
13 up before you would be comfortable that they had all the
14 training and what not?

15 MS. MAHER: More concerned about the issuers
16 ramping up and jumping too soon than us being prepared to use
17 those financial statements. We are already using those
18 financial statements in Europe under IFRS. We do all our
19 analysis on a local level. We already have that expertise
20 in-house and we can leverage that.

21 Our bigger concern is if there is a fast pace to
22 IFRS here in the U.S. and the audit firms and the issuers
23 aren't prepared to utilize them and use those best practices
24 and use principles, that we won't get the quality and
25 transparent information that we do today.

1 MS. ERHARDT: Jack?

2 MR. MCGINNIS: I touched on this earlier. From a
3 large foreign private issuer perspective, I would echo Jeff's
4 comments in that we believe there really should be a
5 consideration of the folks that already are complying with
6 IFRS here in the U.S., U.S. registrants, their subsidiaries.

7 They are ready to go today basically. I think U.S.
8 operations that are already complying with IFRS actually have
9 the infrastructure. In fact, our subs reconcile to IFRS
10 every quarter. Our segment results are already on an IFRS
11 basis.

12 I think from that perspective, our financial
13 statements, that is how we manage our business. I think
14 regarding the transition provisions, I think in discussion of
15 a quarterly ongoing rec back to U.S. GAAP, when you think
16 about the burden associated with the multiple GAAP
17 infrastructure, in the U.S., we have 1,500 finance
18 professionals, and that is because we have to basically run
19 an IFRS and U.S. GAAP set of books. In Canada, they have a
20 third one because they issue in Canada.

21 There is a significant burden in complying with
22 those. I think any relief in moving to a single standard
23 would be a huge benefit from an infrastructure point of view.

24 MS. ERHARDT: Sam and Richard and then Paul.
25 Timing, sequencing. I know you have alluded to it a little

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1 bit, but if you want to kind of summarize your views.

2 MR. RANZILLA: I don't think I have much more to
3 say other than I am in favor of a very short optional period.
4 I am not in favor of a reconciliation back to U.S. GAAP at
5 any point during this process.

6 MS. ERHARDT: Richard, this may be a hypothetical
7 to say would you have appreciated an option period in Europe
8 as opposed to a date certain for everybody. I'm not asking
9 you to answer a hypothetical.

10 If you have any reactions on how it went to that
11 end, I would appreciate hearing them.

12 MR. THORPE: Lots of thoughts. I don't feel too
13 guilty because I came a long way.

14 MR. THORPE: I think this decision is one that you
15 have to make that would depend on why you are making the
16 decision. This is a classic securities regulator's dilemma.

17 On the one hand, it's always tempting to say let us
18 allow the market to decide. We do that all the time as a
19 regulator. On the other hand, if you think the market is
20 currently different than what you want, you have to impose.

21 It is a question really ultimately of why you are
22 introducing IFRS in the first place. If it is because you
23 think IFRS principles are better, you might as well go for
24 it. You won't gain anything from delaying or having a
25 transition.

1 The transition we currently have in the U.K. is not
2 straightforward. As I said, there is an option for any
3 company. They are not obliged to follow it unless they are a
4 listed group.

5 We chose not to impose IFRS on the firms we
6 prudentially regulate. We chose to give them the option
7 because we couldn't quantify the costs, but we suspected they
8 may wanted to receive the benefits to us as a regulator.

9 Equally, we consulted and chose not to impose IFRS
10 on the handful of U.S. companies that have no subsidiaries
11 that are listed, on the basis that those who were competing
12 with other companies in the same industry would move and
13 those who didn't, hopefully it wasn't a disaster.

14 Nonetheless, life is not straightforward in the
15 U.K. now. We had all the issues discussed in the earlier
16 panel. We had huge difficulties about training. We had the
17 biggest, the Institute of Chartered Accountants, the ICAW,
18 that not only trains accountants in IFRS, but most private
19 companies are still using U.S. GAAP, so one of the other
20 major bodies, the certified accountants, is now training in
21 U.K. GAAP and people are drifting between one and the other.
22 There is great uncertainty there.

23 We have growing numbers of companies who
24 potentially are going to use the SME standard when it is
25 finalized. The U.K. IASB has calculated that of the two

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1 million companies in the U.K., a huge number will be on the
2 SME standard, a significant number will be IFRS or
3 subsidiaries of groups, and in the middle, there are 7,000
4 companies they believe, that is a heroic assumption, two
5 million, but they believe there are 7,000 companies who are
6 too big for the SME standard and who wouldn't automatically
7 be obliged to follow IFRS.

8 The debate there is whether it is worth having U.S.
9 GAAP for those companies. Some people say it is. Some
10 people say the IASB standards are just too complicated in
11 some areas for those companies, that you don't need the whole
12 panoply of business combination standards if you have two
13 relatively small private companies merging.

14 There are all sorts of issues there which haven't
15 been resolved. Our life would be easier if those issues
16 weren't around.

17 It is awfully tempting to say let the market
18 decide. I do agree that the important thing is to set a date
19 and not allow that date to drift. If you're going to go for
20 it, do it quickly. If we could do it in three years when the
21 standards were in a state of change, you could do it in five
22 or less.

23 It's illusory to say that U.S. investors will be
24 confused by this because they are already having to deal with
25 the fact that all foreign issuers can now use IFRS without

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1 reconciliation. They are already getting used to it.

2 The problems that we had with using the standards
3 for the first time would have been largely shaken out. Many
4 of the IASB standards have been set for use in
5 unsophisticated markets.

6 When we started using them in Europe, we found the
7 problems. That have been shaken out, so you shouldn't have
8 the teething problems we had either.

9 MS. ERHARDT: Paul, did you want to join in with
10 any other observations on the overall topic of timing and
11 sequencing, just from your experiences and conversations in
12 Canada?

13 MR. CHERRY: I agree with most of what has been
14 said. Ultimately, we decided this is a policy decision to be
15 made by our securities regulators. As an accounting standard
16 setter, our view for some time has been once you put
17 standards out, we encourage early adoption.

18 I think if we were just viewing it from that
19 dimension, we would certainly allow that choice.

20 We did raise the question early on whether the
21 marketplace would be confused if there were IFRS financial
22 statements in circulation at the same time as Canadian GAAP
23 financials and U.S. GAAP financials.

24 Maybe our situation is a little different here
25 because we have always had a significant number of companies

1 reporting using U.S. GAAP and others reporting using Canadian
2 GAAP. We haven't required reconciliation in most
3 circumstances.

4 I think our marketplace may be a little more
5 accustomed to having two systems in play temporarily.

6 My sense is the feedback we are getting is there is
7 a significant legitimate interest in high quality adoption
8 early. I find it hard to discourage that. I think it helps
9 reinforce practice. It frees up some resources for those who
10 can't early adopt. It adds momentum.

11 The one point I absolutely agree with, fix a date,
12 don't blink. As soon as people get the impression you might
13 blink on the mandatory cross over, the thing will collapse.

14 MS. ERHARDT: If others do not have anything to add
15 on this, I was going to give the Commissioners an opportunity
16 to ask anything they may like before we sort of move for
17 general observations from everybody. Otherwise, we will keep
18 going.

19 CHAIRMAN COX: On this question of two GAAPs, we do
20 have the IASB standard that permits us if there is not an
21 answer under IFRS to look to another body of established
22 rules.

23 Will we find ourselves in America perhaps nearly
24 uniquely risking a tendency toward a two GAAP system, even if
25 we go over lock, stock and barrel to IFRS? As people are

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1 accustomed in our regulatory environment, to getting a
2 definite answer to a question, look to what the GAAP answer
3 would be if IFRS does not address it?

4 How should we be thinking about that? How does it
5 affect these transition issues?

6 MS. ERHARDT: Bob?

7 MR. HERZ: That's an excellent question. As a
8 point in fact, I believe that because IFRS is kind of broad,
9 often companies in other parts of the world do look to U.S.
10 GAAP actually to fill in some of the blanks.

11 In our letter, that is why we proposed that
12 whatever this interim period is, that we move the U.S. system
13 to IFRS, that we have a lot of work to do along with a lot of
14 other people to figure out those kinds of issues. It is what
15 we call the "adopt leg" of the work plan that we want to
16 engage in. It is going to have to take all the existing U.S.
17 GAAP plotted against some of our major convergence programs
18 we have now at the IASB, major projects.

19 A lot of those if completed successfully in the
20 next few years will actually do away with a lot of existing
21 U.S. GAAP, but there are other areas where we wouldn't. We
22 are going to have to figure out kind of how to adopt that and
23 then whether or not the existing parts of U.S. GAAP that
24 remain are consistent with IFRS or not, what ought to be done
25 with that.

1 That is an issue. It's an issue that unless we
2 consciously address it, we could well create a U.S. flavor of
3 IFRS, which I don't think is actually what is desired.

4 COMMISSIONER ATKINS: I think you phrased that with
5 your Tower of Babble comment early on. It's not just FASB.
6 It's SEC with our SABs and everything else that is out there.
7 We have a role to play as well to try to make it coherent or
8 you can't make it go away, obviously, and maybe you don't
9 want to as well.

10 We have all those issues to contend with and figure
11 out.

12 COMMISSIONER NAZARETH: I'd like to ask Bob, to
13 what extent when we are talking about the timing of adoption
14 of IFRS, does the convergence project fit into all this? I
15 haven't heard much about that in this panel.

16 To the extent you had a work plan on convergence,
17 what impact is it going to have if we just say we are going
18 to bite the bullet in the next two years or whatever, we are
19 going to let people adopt IFRS on a voluntary basis?

20 MR. HERZ: Our desire and I think that of the IASB
21 is to continue with that work plan on major projects. The
22 reason is because when you talk about a single high quality
23 set of standards, it's not just single, it is high quality,
24 and all those projects, at least most of them, are targeted
25 areas where a lot of people, investors, but also your SEC

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1 staff report to Congress a few years ago said these are
2 problem areas in accounting that need to be addressed.

3 Areas like lease accounting and revenue recognition
4 and pension accounting, things like that, where quite
5 frankly, neither of our sets of standards are particularly
6 doing the right job for the users.

7 We would hope to continue that. One of our fears
8 quite honestly is that if you throw out a general option
9 there, you may embed this mentality of a two GAAP state and
10 it may also undermine further improvements in convergence.

11 The issuers will kind of say well, we kind of have
12 what we want and don't want any change. Quite frankly, and
13 it's very understandable in Europe, they have gone through a
14 major change, but some of the folks over there do not want to
15 make more changes, and that includes people high up in the
16 regulatory structure. Not Richard, of course.

17 MR. THORPE: That is because I am low down on the
18 regulatory structure.

19 MR. HERZ: The European Commission. I don't think
20 that would be tolerable because convergence is very important
21 getting to a single set of standards across the capital
22 markets, but it has to be a good set of standards.

23 MS. ERHARDT: If we have missed something important
24 that you wanted to say, I will give you a chance to say that,
25 or whatever you wish. To the best you can, and I know you

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1 all probably have broad views on this, but one of the
2 benefits of a diverse panel is to get within your area of
3 expertise.

4 Paul, we can start with you. Is there any
5 particular comments you wanted to make or observations that
6 you wanted to add that you haven't had a chance to make about
7 anything? Transition or the bigger picture questions,
8 capital formation, et cetera, just from the vantage point of
9 sitting in a country who has a plan to move to IFRS.

10 MR. CHERRY: Just a few things. I'll try to be
11 quick here. First thing I would suggest that we haven't
12 talked about is to engage your academic community. What we
13 went through here, it revealed a huge diversity in the
14 approach to education in our universities. That is a
15 conversation that I suggest needs to be made regardless of
16 what sort of date you fix relative to IFRS.

17 A lesson that we learned looking at Europe was
18 people under estimated the disclosure piece and tacked it on
19 at the end. That, I think, is one of the reasons why it
20 tended to be additive and the level of disclosures perhaps
21 were well in excess of what a more managed approach to that
22 might have been.

23 I'd like to come back really to implementation. We
24 have talked about IFRS-1. I think the real challenge for
25 you, and it's a challenge for us as well, is telling people

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1 we are going to let go of our literature, then confront
2 reaction, which tends to be well, does that mean there's a
3 blank page, anything goes. That's wrong in our judgment.

4 We left that too late in the process. We should
5 have started industry discussion groups at a very early
6 stage. I think given the rich tradition in the U.S. of
7 industry orientation of your literature, I would put a very
8 high priority to that.

9 Also, I think we under estimated the infrastructure
10 issues. We sort of acknowledged it and said we will get to
11 it in due course, trust us. Not that people don't trust us,
12 but we got to the point of saying all right, we have to
13 dismantle the equivalent of our emerging issues task force.

14 To me, that just seemed obvious, but it wasn't so
15 obvious to our stakeholders. What it revealed was
16 particularly among the prepare community, what an important
17 forum it is for them, where they can participate, and we
18 hadn't factored that in. We should have done that earlier
19 on.

20 What mechanism do you envision on a go forward
21 basis as all these good questions come along, surely, people
22 will want to participate or feel that they have input into
23 that. We under estimated that. In hindsight, I wish we had
24 started that discussion earlier. It would have alleviated
25 people's concerns.

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1 Finally, just to acknowledge that Canada for many
2 years worked hard to align our standards with U.S. standards.
3 We have a lot of shared ground in charming things like
4 impairment and VIEs and securitizations. We have a strong
5 desire to collaborate with you and sort some of those things
6 out.

7 MS. ERHARDT: Thank you. Jeff?

8 MR. BUNZEL: A couple of quick points. One would
9 be the whole idea talked about here and before about global
10 comparability for companies across sectors is real.

11 Secondly, that investors, I think you can be
12 confident that investors will get up to speed as they need
13 to. It's not that it isn't without its challenges. I think
14 you can be confident that both institutional and retail
15 investors will become knowledgeable enough over a period of
16 time.

17 Three, don't be scared of choice for a time, a dual
18 system, as long as it's limited, I think is okay. Finally, I
19 would just comment that certainly across our firm, I was
20 struck by how many people view this through a more macro or
21 broader prism of U.S. competitiveness and the whole idea of
22 adoption in that context, almost universally.

23 MS. ERHARDT: Thank you. Bob?

24 MR. HERZ: I would reiterate one point and make
25 maybe a new point that was partially made in the prior panel,

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1 I think, or maybe by Sam in this panel, too.

2 The point I would reiterate again is that it is
3 important to think about the infrastructure elements that are
4 going to need to be put in place. I hear some saying it will
5 be easier for us. I don't think that's the case. We have
6 the most complicated reporting system in the world right now,
7 and getting from there to a different system is going to take
8 a lot of effort and by a lot of other people involved.

9 We were talking to the bank regulators the other
10 day. All their systems are based on U.S. GAAP. They are
11 going to have to figure out how to do that.

12 There are a lot of state laws with contracting
13 requirements that are based on U.S. GAAP. Imagine having to
14 get state laws changed.

15 It needs to get underway to get us to that ultimate
16 goal.

17 A second thing that was mentioned a little bit was
18 the issue of if we are going to go to IFRS and the IASB as
19 the global standards setter, we have to make sure it's
20 strong, independent, well resourced as it can be. We work
21 with them every day. They are terrific people. We have
22 melded project teams.

23 They need more people. They need a stable source
24 of funding. Their independence needs to be buttressed. Some
25 of their accountability needs to be dealt with in a

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1 constructive way as well.

2 Part of this process of bringing the U.S., which is
3 by far still the largest individual nation capital market in
4 the world, into this, is to make sure if we are going to ride
5 this horse, we are confident it is a very good horse to ride.
6 Otherwise, the benefits could be illusory and it could be
7 short lived.

8 MS. ERHARDT: Dina?

9 MS. MAHER: Just to reiterate that we strongly
10 support the convergence efforts and that we feel that
11 analysts here in the U.S. will be affected, that up until
12 now, they have been able to live in an one accounting model
13 world as we do our analysis locally on the multinationals,
14 and that we really feel strongly that the timing should be
15 tied to the convergence efforts between the FASB and IASB.

16 MS. ERHARDT: Thank you. Jack? You can speak from
17 your company but more broadly if you want.

18 MR. MCGINNIS: Sure. I won't repeat earlier
19 comments. I just wanted to say thank you for the invitation
20 and being part of these discussions in terms of the U.S.
21 implementation of a global standard.

22 I guess the one point I just want to maybe leave
23 you with is based on our experiences in the U.K., I think the
24 establishment of industry committees and forums to talk
25 through the implementation issues that we talked about which

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1 although there is a lot of benefit with the proximity of U.S.
2 GAAP to IFRS, there are a lot of details.

3 I think the earlier that we can get regulators and
4 in my example, U.S. banking regulators, involved in those
5 discussions, and taxing authorities, with the IRS involved in
6 those discussions as well, the better we will all be in terms
7 of getting in front of this.

8 That would be my closing comments.

9 MS. ERHARDT: Sam and then Richard.

10 MR. RANZILLA: We support a single set of high
11 quality standards. I am not sure there is anybody that
12 doesn't support that. We support the establishment of a
13 plan, a detailed plan, that includes a short period of
14 optionality and a reasonable way to get the U.S. on IFRS, and
15 I think it is time for us to re-engage in the discussion of
16 converging the auditing standards as well.

17 I completely recognize that is not your primary
18 role, but I struggle with why we can't make more progress on
19 that.

20 MS. ERHARDT: Thank you.

21 MR. THORPE: A couple of points. Paul reminded me
22 of something I meant to say earlier, which is one of the
23 issues that stuck us was there was a tendency to read IFRS as
24 if you know what they are going to say before they start.
25 I've done it myself. You assume you know what the standard

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1 is going to say because you know something about the subject,
2 but actually, it doesn't necessarily say that. It may say
3 something slightly different.

4 Even if it says what you thought it was going to
5 say, you have to look back at the framework and some of the
6 definitions are slightly different. I think that is one
7 reason why the disclosures lagged behind or there were
8 problems with disclosures. People just assumed they knew
9 what the standard said on disclosures and discovered they
10 hadn't got it quite right.

11 Finally, I am immensely pleased to be here today,
12 and partly because it is quite a good idea to be out of the
13 office at the moment, because you can't take the blame for
14 anything that is going wrong.

15 MR. THORPE: Today, it's definitely not my fault.
16 This is another step towards having global standards.
17 Frankly, I didn't think we would get there in my working
18 lifetime. I've got about ten years before I retire.

19 MS. ERHARDT: Any other final comments from the
20 Commissioners?

21 If not, just join me in our heartfelt appreciation
22 for all of you, and Paul, including your efforts to get here,
23 for your efforts to travel and your time and your insight.

24 There is no sense re-inventing a wheel from ground
25 that has been plowed before.

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1 We definitely wanted to learn about what had
2 happened and what others have been through in the course of
3 this panel. I think we definitely achieved our objectives.

4 Thank you again for your time. Without further
5 ado, I think that will end today's roundtable and the
6 moderator's role, and I turn the final words over to Chairman
7 Cox.

8 CHAIRMAN COX: Julie and Paul, I want to add
9 congratulations to you for doing an outstanding job of
10 moderating this panel. I want to thank all the
11 Commissioners, who as you know, are extremely interested in
12 this. That is why we are here listening attentively.

13 Once again, because we can't do it too often, thank
14 you very much for this expert and outstanding panel. Some of
15 you have made truly heroic efforts to be here, and all of you
16 have had to dedicate a great deal of time in preparing to be
17 here and presenting today.

18 We are enormously grateful, as you can tell, there
19 is a lot of learning that all of need to continue to do.
20 Your help is much, much appreciated.

21 The capital markets in this country and indeed
22 around the world benefit from you all.

23 Thanks again.

24 (Whereupon, at 1:03 p.m., the roundtable was
25 concluded.)