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July 29, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: Staff Paper: Exploring a Possible Method of Incorporation, File No. 4-600

Dear Ms. Murphy:

We appreciate the opportunity to respond to the U.S. Securities and Exchange Commission (Commission or SEC) Staff's request for comment on its paper *Exploring a Possible Method of Incorporation* (the SEC Staff Paper) which is a part of the Staff's *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*. Consistent with our April 16, 2009 comment letter in response to the Commission's proposed *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with the International Financial Reporting Standards by U.S. Issuers* (Proposed Roadmap) and our October 18, 2010 comment letter in response to the Commission's *Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers*, we continue to support, as an ultimate objective, the use of a single set of high-quality, globally-accepted accounting standards that is consistently applied and enforced around the world. As discussed below, we support the approach described in the SEC Staff Paper as an appropriate step towards that objective. We believe it is important for the SEC to clearly communicate its plans for the potential use of International Financial Reporting Standards (IFRS) by U.S. issuers, including the expected transition period, to reduce the current level of uncertainty among financial reporting constituencies.

In our experience, there currently are differences in regulatory oversight and enforcement of the application of financial reporting standards around the world resulting in differences in application of IFRS. Progress towards the ultimate objective of a single set of high-quality, globally-accepted accounting standards that is consistently applied and enforced around the world will be achieved only if the development of common standards is coupled with consistent interpretation and application, auditing, and regulatory enforcement of those standards. As such, a plan to incorporate IFRS into the financial reporting system for U.S. issuers also should address the Commission's plans to work with other securities regulators to enhance globally consistent application and enforcement of the standards with an objective of improving the comparability of financial information around the world. While we acknowledge that these and other impediments create significant challenges to the achievement of the ultimate objective, we believe that the continued pursuit of that objective is a worthwhile effort that should lead to continued improvements in the comparability of financial information as progress towards the objective is made.

Retention of U.S. GAAP as the Vehicle for Incorporating IFRS

We believe the approach outlined in the SEC Staff Paper to incorporate IFRS directly into U.S. GAAP over a transitional period is an appropriate mechanism for incorporating IFRS into the financial reporting regime for U.S. issuers. Many regulatory and contractual requirements and provisions reference to or are based on U.S. GAAP information. Retention of U.S. GAAP is also likely to minimize disruption and transition costs. In addition, the retention of the FASB as the U.S. standard-setter would ensure that U.S. financial reporting issues are appropriately considered and addressed as IFRS is incorporated into U.S. GAAP. Therefore, we agree that U.S. GAAP should be retained as the vehicle for incorporating IFRS into the U.S. financial reporting regime.

As a part of the plan for incorporation, the goal for U.S. issuers to be in dual compliance with IFRS and U.S. GAAP at the end of the transition period is a key objective that will establish constituents' expectations and impact the FASB's framework for addressing whether IFRS standards should be incorporated into U.S. GAAP during the transition period and the subsequent period of endorsement. We believe the objective of dual compliance with U.S. GAAP and IFRS at the end of the transition period is a critical part of the approach to continue improving the comparability of financial information both within the U.S. and on a global basis.

Role of FASB and Framework for FASB Consideration of IFRS

Consistent with the SEC Staff Paper, we agree that there should be an ongoing and substantive role for the FASB as the U.S. standard-setter. However, that role will differ in many respects from its current role and will require a new process and framework to address how the FASB will consider whether IFRS standards should become part of U.S. GAAP. In addition, part of the FASB's role under this approach should focus on providing substantive input to the International Accounting Standards Board's (IASB's) standard-setting activities which should facilitate the FASB's endorsement of the final IASB standards. In addition to the FASB's role during the transition process to address existing differences between U.S. GAAP and IFRS, the FASB's ongoing role and responsibilities should include activities such as:

- Research undertaken on behalf of the IASB;
- Leading outreach in the U.S. on proposed IASB standards;
- Providing feedback from U.S. constituents during the IASB's deliberations;
- Conducting field tests with U.S. constituents of proposed IASB standards;

- Undertaking due process to determine whether new IFRS standards should be endorsed into U.S. GAAP;
- Considering whether supplemental U.S. guidance or disclosures may be necessary to achieve consistent application of the final standard (see below); and
- Considering whether guidance should be provided on specific issues in U.S. financial reporting that are not covered in IFRS.

In response to the change in the FASB's role and responsibilities, the FASB will need to develop a plan for addressing existing differences between U.S. GAAP and IFRS during the transition process and a framework for deciding whether a final standard issued by the IASB should be incorporated into U.S. GAAP during both the transition process and the subsequent endorsement period. We believe that the FASB's development of the transition plan and the decision framework also will need to include the development of the due process procedures to be followed in making these decisions. We believe it is important that the transition period plan and the decision framework are subject to the FASB's due process procedures, including public comment on any proposed plan and framework.

The FASB's framework for making transition and ongoing endorsement decisions will need to address the circumstances under which the FASB might modify or conclude not to endorse certain standards or portions thereof issued by the IASB (i.e., a "carve out" of an IFRS requirement). Departures from IFRS that would preclude a U.S. entity's ability to assert dual compliance with U.S. GAAP and IFRS might result from unique U.S. circumstances such that carve-outs could be expected to be rare and generally avoidable as the SEC Staff Paper notes. Therefore, the decision framework should emphasize the dual compliance objective and, as a result, require substantive reasons for decisions that would prevent dual compliance.

In certain cases, the FASB may find it appropriate to narrow choices available in IFRS in order to achieve greater comparability in the U.S. market place, especially during the transition period. For example, IFRS 3, *Business Combinations*, permits certain noncontrolling interests to be measured upon initial recognition at either fair value or at the proportionate interest in the identifiable net assets, whereas ASC Topic 805, *Business Combinations*, requires noncontrolling interests to be measured upon initial recognition at fair value. Additionally, the FASB may find it necessary to supplement the disclosure or presentation requirements of IFRS with additional disclosures or presentation requirements or to address significant issues for U.S. companies that are not addressed in IFRS (i.e., a "carve-in" to IFRS requirements).

With respect to interpretive guidance on implementation issues that arise in practice, the KPMG network has expressed concerns about the effectiveness of the IFRS Interpretations Committee. The response on behalf of the KPMG network to the *IFRS Foundation Report of the Trustees' Strategy Review* observed that the IFRS Interpretations Committee should be more willing to develop responses to significant interpretation issues. We believe that authoritative interpretations would best be provided through the IASB's official due process, including the IFRS Interpretations Committee. However, the FASB may find it necessary, after seeking authoritative interpretations through the IASB's due process, to develop interpretive guidance, especially during the transition period, to provide for greater comparability in the U.S. market place in the application of the standards. In these cases the FASB could "carve in" this additional guidance, requirements, and/or limitations as part of its endorsement process after having deliberated the costs and benefits of doing so during its endorsement consideration.

Although there will be numerous issues about the FASB's due process, such as agenda decisions and the decision threshold that would result in an objection to an IASB conclusion, we believe those issues can be addressed and are not so significant that they should alter the decision to pursue incorporation of IFRS into U.S. GAAP. While we believe there should be a high threshold before the FASB concludes that it should make changes to IFRS standards, we believe that the decision threshold that might result in an objection to an IASB conclusion (i.e., a "carve-out") should be significantly higher than for a "carve-in" decision.

Transition Process

We support the SEC Staff's description that the transition process would involve grouping standard setting activities into the following three categories: (1) joint projects subject to the FASB and IASB Memorandum of Understanding (MoU), (2) projects on the IASB's current standard-setting agenda which are expected to result in new IFRS standards in the near term, and (3) all other existing IFRS standards that are not subject to current standard-setting efforts for which changes to the existing standards are not expected in the near term. The FASB will need to develop a robust plan with appropriate due process to operationalize the Commission's transition approach over an appropriate time horizon. We believe that a period of five to seven years is an appropriate amount of time for the transition phase.

The FASB's plan also will need to include its approach to MoU projects that do not result in converged standards, which appears likely for projects such as financial instruments and consolidations. For example, it would appear that non-converged projects coming out of the MoU deliberations would then need to be included in category 3 for reconsideration by the FASB. We note that one of the objectives of the SEC Staff Paper with respect to the transition process is that U.S. entities would not be required to change accounting policies twice during the transition period. Therefore, the effective date and transition requirements of new and revised standards issued by the FASB to operationalize the plan put forth in the SEC Staff Paper should be established with this objective in mind.

The implementation of new standards that result from category 3 projects should be "batched" together into logical groupings (e.g., property, plant and equipment, intangibles, and impairment) to facilitate the transition process.

With respect to the SEC Staff Paper's description that prospective application of new standards arising from the transition process would be the norm, we believe that it should be the FASB's responsibility as part of its due process to determine transition provisions on a standard-by-standard basis rather than having a pre-disposition to a prospective approach. The FASB's transition decisions should be based on considerations of investor needs and costs of implementation. That said, there may be a number of areas where retrospective application may not be justified by a rigorous cost/benefit analysis. Furthermore, at the end of the transition period, the FASB still may need to request the IASB to provide a limited number of additional exemptions to IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, to accommodate first-time adoption issues in a manner that would permit a U.S. issuer to assert dual compliance with IFRS and U.S. GAAP.

Early Adoption of IFRS

During the early phases of the transition period, we would support voluntary adoption of IFRS as issued by the IASB for a modest number of companies that have a compelling reason for using IFRS. For example, this might be the case for domestic debt-only issuers that are subsidiaries of foreign parents that use IFRS for their group consolidated reporting. However, we would not support a voluntary adoption of IFRS as issued by the IASB on a widespread basis until such time as it becomes clear that the objective of dual compliance will be achieved. Nor do we believe that the SEC should establish a mechanical or formulaic basis, such as that in the Proposed Roadmap, for determining which entities have a compelling reason.

Composition of IASB

We understand that some have suggested that the future model for the IASB might be for it to be composed of representatives of national or regional standard setters. Under this model, for example, some members of the FASB might also be members of the IASB. The functioning of the IASB's predecessor shows that having national or regional representation on the IASB is likely to be an impediment to its ability to function as an independent standard setting body. For this reason, we do not support such an approach. We do, however, continue to believe that there should be appropriate level of participation on the IASB by members with the experience of U.S. markets and financial reporting practices and issues.

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In summary, we continue to support, as the overarching objective, the use of a single set of high-quality globally-accepted accounting standards that is consistently applied and enforced around the world. While we recognize that the objective will be difficult to achieve and will present numerous issues, we do not believe those issues should prevent the U.S. from moving forward with a transition plan similar to that suggested in the SEC Staff Paper as part of its broader consideration of the key issues identified in the IFRS Workplan (e.g., independent standard setting for the benefit of investors, oversight by the IFRS Foundation, funding of the IFRS Foundation).[1] We encourage the SEC to continue development of the approach described in the SEC Staff Paper and to clearly communicate its decisions in this regard, as well as the anticipated period for the FASB to carry out its transitional standard-setting activities if the SEC decides to support such an approach.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Glen Davison at (212) 909-5839, Mark Bielstein at (212) 909-5419, or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP

Cc: SEC Chairman Mary L. Schapiro
SEC Commissioner Luis A. Aguilar
SEC Commissioner Kathleen L. Casey
SEC Commissioner Troy A. Paredes
SEC Commissioner Elisse B. Walter
SEC Chief Accountant James L. Kroeker
SEC Deputy Chief Accountant Paul A. Beswick
FASB Chairman Leslie F. Seidman
PCAOB Chief Auditor and Director of Professional Standards Martin F. Baumann
IFRS Foundation Trustee Vice-Chair Robert Glauber
IFRS Foundation Trustee Vice-Chair Tsuguoki Fujinuma
IASB Chairman Hans Hoogervorst
IASB Vice-Chairman Ian Mackintosh

[1] Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, February 24, 2010.