July 30, 2011

U.S. Securities and Exchange Commission
Office of the Chief Accountant
100 F Street, NE
Washington, DC 20549

Re: Work Plan For the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation

The American Gas Association ("AGA"), founded in 1918, represents 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which 91 percent — more than 64 million customers — receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs. AGA is submitting this letter to the Securities and Exchange Commission ("SEC") in response to the request for comments on the SEC's Staff paper titled *Work Plan For the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation* (the "Staff Paper").

Summary

Overall, we support the "condorsement" approach included in the Staff Paper, the proposed role of the Financial Accounting Standards Board ("FASB") and the SEC and the staged or staggered transition approach. We also note that the Edison Electric Institute ("EEI"), with whom we regularly partner on issues of importance to the regulated utility industry, has authored a whitepaper ("the Whitepaper") supporting retention of an accounting standard recognizing the economic effect of rate regulation in the US, submitted as an attachment to their comment letter on the Staff Paper. We fully support the positions included within the Whitepaper, and we further believe that the proposed incorporation approach within the Staff Paper provides a mechanism by which to retain similarly useful and necessary country and/or

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industry-specific guidance where appropriate. We also include suggestions to the proposal including the suggestion to (i) use the completion of the joint FASB/International Accounting Standards Board ("IASB") Memorandum of Understanding ("MOU") projects[1] as an assessment or decision point in determining when and whether to move in to the endorsement incorporation phase described in the Staff Paper (ii) further clarify what the FASB's process and role will be in the evaluation, interpretation and incorporation of International Financial Reporting Standards ("IFRS" or "IFRSs"), and (iii) make decisions regarding whether to retain existing U.S. generally accepted accounting principles ("GAAP") not currently present within IFRS earlier in the process.

Our Views on Condorsement

Under the approach described in the Staff Paper, U.S. GAAP would continue to exist and to be promulgated by the FASB. In addition, the ultimate authority to determine accounting standards for U.S. reporting entities would remain with the SEC. We strongly support this approach, regardless of the method used (if any) to incorporate IFRSs into the U.S. financial reporting system, if such a decision is reached.

We believe that the condorsement method proposed in the Staff Paper would be a high-quality approach of incorporating IFRSs into the U.S. financial reporting system. It is our understanding that under the condorsement method, there would be a designated point in time (after the completion of the MOU process) at which a switch would be made from a convergence approach to an endorsement approach. Rather than automatically moving in to the endorsement phase as proposed in the Staff Paper, after the completion of the joint FASB/IASB MOU projects, we propose that the SEC use this as an assessment point. That is, at this point the SEC could assess the progress made under that convergence effort, and either:

a) Direct the FASB to continue the IASB/FASB joint MOU convergence process, with a new set of priority projects to be completed over a set period;

b) Move into the endorsement phase of incorporating IFRSs into U.S. GAAP in the manner described in the Staff Paper;

c) Determine another method or approach for moving toward a global set of accounting standards in the U.S. ; or

[1] The term "MOU projects," as used in this letter, has the same meaning as the term is described in footnote 28 in the Staff Paper.

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d) Re-evaluate, based upon lessons learned through convergence, whether the SEC should continue to proceed with the incorporation of IFRSs into the financial reporting system for U.S. issuers.

The modification in the approach described above reflects our belief that the pace of incorporation should be dictated in large part by the success of the ongoing IASB/FASB joint MOU convergence process. If the current FASB/IASB convergence process requires more time than expected, and/or where differences in opinion among the boards continue to exist on fundamental issues, we believe that this an indication of the breadth and depth of differences which could be expected under a "U.S. flavor" of IFRS (as contemplated in the condorsement approach) and pure IFRS. It should be taken as evidence that further time and work may be necessary before a smooth transition can occur. If the pace of convergence proceeds more quickly in the future and fundamental differences continue to be resolved, then perhaps an endorsement approach could be elected at some future assessment point.

The proposed modification would allow the SEC to better understand both the costs and benefits of moving towards a single set of globally accepted accounting standards, and adjust the pace of transition accordingly. The overall transition process would only take longer under this approach if extra time is deemed necessary by the SEC. Through convergence efforts, we would continuously move closer to the overall goal of a single set of global accounting standards.

<u>Our Views on the Proposed Role of the SEC and FASB</u>

Countries throughout the world have significant differences in their political, regulatory, and capital frameworks. We believe that investors need decision useful financial information that considers and acknowledges these differences, particularly to the extent that they result in real economic phenomena to the companies affected by them. The proposed role of the FASB would give it the ability to modify, supplement or interpret IFRSs when necessary, to meet the specific needs of the U.S. system. We believe that a defined, formal role for the FASB to provide such guidance is necessary to help support U.S. companies and their third party financial statement users and investors. This is also consistent with our understanding of how IFRS is being adopted in many parts of the world today.

The Staff Paper also states that the SEC expects that once IFRSs are fully incorporated into the U.S. system, departures would be rare. By directing the FASB to limit the exceptions between U.S. GAAP and IFRSs, the ultimate goal of a single, globally accepted set of accounting standards (i.e. comparability between entities throughout the world) would be preserved, to the extent possible. We recognize for the reasons stated above (namely, differing political, regulatory, and capital markets) that pure comparability is likely not achievable, at least not in the near term.

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That said, the condorsement approach provides an avenue to resolve some of the more stark differences (where the Boards can agree) and thus move comparability closer to this ideal. Further, if country-specific exceptions are limited and adequately disclosed, then an appropriate level of comparability will be achieved.

Absent this formal role for the FASB, we believe that U.S. registrants would seek consultations with the SEC on a company by company basis in situations where IFRSs are unclear, or where U.S. companies do not believe that the method of application of IFRSs in other countries represents the economics of the market in which U.S. companies operate. We believe that the proposed approach in the Staff paper provides for a needed (if yet to be refined) process for the FASB to provide accounting standards where not addressed in IFRS, as well as interpretations of existing IFRSs when necessary to take into account the specific economic environment in which U.S. companies operate. However, we believe that more details of the FASB's process and operation within the U.S. under the proposed condorsement approach, particularly in evaluating the sufficiency of IFRSs as issued and/or the need for interpretive guidance, will ultimately be necessary.

We believe that the proposed approach would give the SEC, through its oversight of the FASB, the appropriate authority to weigh the impacts or perceptions, both positive and negative, in the global capital markets, of a more pure application of IFRSs against the need for country-specific modifications and interpretations to protect the interests of U.S. investors and comply with U.S. market regulation. In addition, under the proposed approach, we believe that the SEC would retain its ultimate authority to establish accounting standards for U.S. issuers while ensuring the reliability of the financial statements provided by these issuers.

An example where this situation could arise is in the accounting for rate regulated activities. As the SEC is aware, the regulated utility industry has actively participated in the consideration of a rate-regulated activities accounting standard at the IASB, and continues to be active in the U.S. in retaining such an accounting standard for U.S. issuers. There is currently no equivalent standard under IFRS to ASC 980 (formerly, FAS 71). We are aware that some countries have applied existing IFRS in a manner where regulatory assets and liabilities are not recognized in the financial statements. As described further in the Whitepaper, a similar application in the U.S. could result in significant write-offs of regulatory assets and liabilities currently recorded in the financial statements of rate regulated entities that is not justified by the underlying economics of a relatively stable regulated industry. This will have the effect of significantly reducing the industry's equity, increasing reported volatility going forward (where it does not in fact exist), increasing the amount of unaudited/non-GAAP financial measures provided to our users in order understand our true economic position, and ultimately, increasing the cost of capital formation and potentially the cost of service to our rate-payers.

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Our primary financial statement users include not only investors and rating agencies, but also our state and federal regulators. Representatives from all of these user groups have expressed concern regarding a possible mandated conversion to IFRS without an equivalent rate regulated standard. As described further in the Whitepaper, if accounting guidance comparable to ASC 980 does not exist in the future for U.S. registrants, our regulators will require us to maintain an additional set of books to reflect the true economic effects of regulation. While the issue of maintaining both a regulatory and a GAAP set of books exists today, U.S. GAAP largely forms the basis for our regulatory accounting records upon which our rates are set. Therefore, the magnitude of divergence between the two sets of records will dramatically increase, along with the cost and required sophistication necessary to track, understand, and explain such differences to our regulators, investors and rating agencies. Our users would likely adjust our GAAP financials to reflect the economic effects of rate regulation in their determination of the actual cash flows and other metrics of the business, as the GAAP financial statements would not reflect the underlying economics or actual financial results of utilities subject to cost-of-service based price regulation in the U.S.

We believe that the proposed approach in the Staff Paper would provide for the needed consideration by the FASB of whether its existing guidance (ASC 980) under the condorsement approach should be retained as part of U.S. GAAP. We believe that this structure would ensure that financial statements for U.S. utilities include "decision useful" information and also support the continued path toward global accounting standards through the FASB's formal participation in the IASB due process, as a constituent. Under this approach, the FASB and SEC would have a formal mechanism to consider concerns expressed by our third party financial statement users as described above. The proposed FASB and SEC roles would help to minimize the costs and disruption to our businesses resulting from a transition to a single set of international accounting standards.

<u>Our Views on Proposed Transition</u>

<u>Staged/Phased-In Incorporation of IFRSs</u>

The Staff Paper proposes a three-step transition during which the content of U.S. GAAP would be replaced with the content of IFRS. The first step would be accomplished through the on-going convergence projects between the FASB and IASB MOU projects. The second step would be the incorporation of IFRSs subject to standard setting in the near term (i.e. those that are not the subject of MOU projects, but are currently on the IASB agenda). The final step would be an ongoing endorsement process for incorporating IFRSs, which are not currently subjects of the IASB's standard setting process, into U.S. GAAP. The manner in which IFRSs would be incorporated into U.S. GAAP (i.e. with or without modifications or additions) would be determined by the SEC as part of their statutory responsibilities to protect U.S. investors and maintain fair, orderly, and efficient capital markets while facilitating capital formation in the

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U.S. We believe that this is a logical and measured approach to transition. Depending upon the timeline that may ultimately be determined, however, we would recommend that a decision regarding the continuation of guidance that is not currently present in IFRS (namely, ASC 980, as referenced in the Staff Paper) be made earlier in the process. The EEI's Whitepaper contains a recommendation that this accounting be "endorsed" by the FASB in connection with either the condorsement approach included in the Staff Paper or another approach in transitioning to IFRS, which we fully support.

We believe that the staggered or phased-in transition approach proposed (versus a single adoption date) would significantly reduce both the costs and difficulties that will be encountered in an incorporation of IFRSs into the U.S. system, regardless of the method of incorporation selected. It would allow financial statement preparers and users more time to prepare for, and make the necessary changes to, their current systems and processes. Spreading the adoption of new standards over time will reduce the need to add additional staff and/or employ outside resources to implement the changes inherent in such large-scale conversion.

Prospective Adoption of IFRSs, when possible

The Staff Paper indicates that prospective adoption methods would be allowed, whenever reasonably possible, for the adoption of new accounting standards during the process of incorporating IFRSs into the U.S. system. We believe that this would also significantly reduce both the costs and difficulties that will be encountered in an incorporation of IFRSs into the U.S. system, regardless of the method of incorporation selected. Prospective adoption methods would reduce the need to gather accounting information for prior periods in a manner that existing systems may not have been designed to accommodate. In addition, prospective adoption methods will reduce successive restatements of prior period statements for the adoption of new accounting standards, which we believe will confuse financial statement users.

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Summary

In summary, AGA supports the objectives and principles outlined in the Staff Paper and compliments the SEC for considering an alternate point of view that is responsive to constituent concerns regarding a transition to a global set of accounting standards.

We appreciate the request for comment and are happy to provide any additional information or to respond to questions based on this letter.

Very truly yours,

Jose Simon [s]

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