ILLINOIS CPA SOCIETY™

July 31, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Via web form and email to rule-comments@sec.gov

Re: File No. 4-600

Dear Ms. Murphy:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the SEC Staff Paper, *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* (Staff Paper). We commend the staff for seeking public comments on proposed methods for incorporating IFRS into the U.S. financial reporting system. We believe that the discussion and feedback generated from this Staff Paper is critical to ensuring that the transition to IFRS in the U.S., if the Commission ultimately decides to require that transition, is effectively accomplished while minimizing cost, effort, and other transition obstacles. Our comments in this letter are in response to the possible method of incorporation in the Staff Paper (the Framework), and are not meant to indicate the Committee's position on whether the SEC should require the incorporation of IFRS into the U.S. financial reporting system.

Our comments on the Staff Paper are presented below, and address three primary issues: (1) the impact of the Framework on private entities, (2) transition issues associated with requiring a convergence approach as opposed to allowing entities to choose earlier adoption of IFRS, and (3) clarification of the FASB's role in post-convergence standard-setting, specifically related to addressing areas of divergence between the FASB and IASB.

Impact of the Framework on private entities

We recognize that the objective of the Staff's Work Plan is to address issues associated with transitioning the current financial reporting system for U.S. issuers, as opposed to all entities currently reporting under U.S. GAAP, to a system incorporating IFRS. Further, we note that the Staff Paper explains, in a footnote, that whether, and to what extent, standards applicable to privately-held companies is a matter to be decided by the FASB and is therefore outside the scope of the Staff Paper.

While we acknowledge that non-issuers fall outside the purview of the SEC, we believe that the issue at hand – the potential incorporation of IFRS into the financial reporting system for U.S. issuers – would have a far reaching impact beyond U.S. issuers. Therefore, we encourage the staff to consider how this issue would impact U.S. financial statement preparers in general, not just those that file with the SEC, and to address this impact as part of the method of incorporation.

In particular, we believe the staff should consider whether and how IFRS for Small and Medium-Sized Entities (IFRS for SMEs) would be incorporated into the U.S. financial reporting system as part of the potential transition to IFRS. This decision would likely impact the reporting options available to private entities and potentially influence the FASB's role in a post-convergence environment. It would also affect the Financial Accounting Foundation's (FAF) response to the recommendations of the Blue-Ribbon Panel on Standard Setting for Private Companies, which include (1) development of a differential framework for private entities and (2) formation of a separate board to set or modify accounting standards for private entities. It is therefore our view that the potential incorporation of IFRS into the financial reporting system for U.S. issuers cannot be addressed in a vacuum. The impact of the SEC's decision regarding the method of incorporation, if the Commission ultimately decides to require incorporation, would reach beyond SEC registrants; the impact on private entities should not be ignored in the staff's development of a possible method of incorporation.

In addition, we noted that in the same footnote where the staff explains that whether and to what extent it would be necessary to modify standards for private entities is outside the scope of the Staff Paper, the staff expresses its belief that components of high-quality accounting standards should likely be similar for all entities, public and private. In our view, these positions contradict one another; the former appears to presume that accounting standards for public entities should be, to some extent, decoupled from private entity standards, whereas the latter states that public and private entity accounting standards should be similar. In our view, since the staff asserts that private and public entity accounting standards should be similar, it is important for the staff to consider the impact of the Framework on private as well as public entities.

Although we believe the far-reaching nature of the matter discussed in the Staff Paper warrants the staff's consideration of its impact on entities and stakeholders outside the SEC's jurisdiction, we would also point out that SEC standard setting has clearly influenced private entity reporting in the past. For example, the revenue recognition guidance in *FASB Accounting Standards Codification* ® (ASC) 605-10-S99-1, *Revenue Recognition* (SEC Staff Accounting Bulletin 104, *Revenue Recognition*), has been adopted by many private entities, and is generally referred to by all types of entities for revenue recognition criteria. Likewise, private entities that issue certain redeemable financial instruments often apply the classification and measurement guidance in ASC 480-10-S99, *Distinguishing Liabilities from Equity* (EITF Topic D-98, *Classification and Measurement of Redeemable Securities*).

We therefore encourage the staff to consider the impact of incorporation on private entities within the scope of the Framework.

Transition issues

We agree with the staff's assessment that a phased transition to IFRS may be the most effective method of incorporation. In particular, we believe this approach would be preferable for smaller entities that lack the resources to effectively implement a date-certain full adoption of IFRS (i.e. a "big-bang" approach). We believe a phased approach would be less costly for most entities, as the gradual transition will allow those entities to focus on appropriately implementing smaller groups of new standards in a given period.

To the extent that the transition plan results in the FASB and IASB's Memorandum of Understanding (MoU) projects being completed before any other IFRSs are incorporated into the U.S. financial reporting system, we suggest that the SEC assess the effectiveness of the MoU projects in achieving converged guidance under

U.S. GAAP and IFRS before automatically proceeding to incorporate additional standards. The extent to which completion of the the MoU projects results in converged standards would likely indicate how completely and effectively the Framework would incorporate IFRS into the U.S. financial reporting system.

The Staff Paper notes that certain entities (mostly large multinational organizations) might prefer a “big bang” approach. We recognize that such an approach may have advantages, such as better comparability across periods. Therefore, we would not object to the SEC allowing entities the option to fully adopt IFRS rather than following the phased approach described in the Staff Paper. While this approach would appear to reduce comparability across entities, we observe that the SEC already allows certain foreign issuers to file financial reports using IFRS, and therefore believe that comparability might not be significantly impacted in some respects if a “big bang” approach is permitted.

Under the Framework, we believe a phased transition plan will be critical to an effective implementation of IFRS. We agree with the staff’s observation that careful consideration of the implementation timing of the MoU projects is necessary when determining how and when to incorporate other IFRSs. We also believe that, where possible, interrelated standards should be implemented together. For example, the FASB should consider whether property, plant and equipment and intangible asset standards are sufficiently interrelated to warrant implementation at the same time as the leasing standard (given the proposed requirement for lessees to recognize right of use assets on the balance sheet). Implementing similar or related standards together may help to avoid duplicative or redundant efforts and systems changes.

In addition, we question the staff’s apparent preference for prospective application of new requirements. We generally support retrospective application of new accounting standards where practicable. If the standards are staged appropriately, preparers should have adequate time to implement them using the most appropriate transition method, considering comparability, cost/benefit, and other factors.

Role of the FASB in the United States

The Staff Paper notes that under the Framework, the FASB would continue to participate in the development and improvement of accounting standards; however, in a significantly reduced role. The FASB would be limited to exercising its authority through the addition of disclosures, by prescribing an IFRS-permitted alternative treatment where one is available, or by setting requirements compatible with IFRS on issues not specifically addressed by IFRS, unless an IASB modification to IFRS fails to reach a threshold that incorporates consideration of the public interest and protection of investors.

We question whether the approach described in the Staff Paper would provide the FASB with sufficient power to protect the needs of U.S. capital market participants over the long-term. We are concerned that, depending how the aforementioned threshold is applied, the FASB’s authority under the Framework might be insufficient to allow timely remedies on potential future issues that may be significant to U.S. capital markets but not other parts of the world.

In addition, the Staff Paper does not address the issue of due process under the Framework. For an endorsement protocol to be effective, we believe it is critical that appropriate due process be established, including requirements for the FASB to solicit and consider feedback from its constituents on IFRSs before they are incorporated into U.S. GAAP. We therefore encourage the staff to consider this issue in relation to the Framework.

We appreciate the opportunity to offer our comments.

Sincerely,

Jeffery P. Watson, CPA
Chair, Accounting Principles Committee

Scott G. Lehman, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011-2012

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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