STANDARD
&POOR'S

August 1, 2011

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via Electronic Submission

Re: Request for Comments—File No. 4-600: Staff Paper on the 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 (May 26, 2011).

Dear Ladies and Gentlemen:

Standard & Poor's Ratings Services appreciates the opportunity to provide the Securities and Exchange Commission and its Staff our comments on the May 26, 2011, 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" (the Staff Paper).

The views expressed in this letter represent those of Standard & Poor's Ratings Services and do not address, nor do we intend them to address, the views of any other subsidiary or division of Standard & Poor's Financial Services, LLC or of its parent, The McGraw-Hill Companies, Inc. We intend our comments to address the analytical needs and expectations of our credit analysts[1].

We Support A Single Set Of Global Financial Reporting Standards

Standard & Poor's Ratings Services consistently has supported a single set of global financial reporting standards[2]. We believe a single body of high-quality standards, established by a well governed and adequately funded global accounting standard-setter, that will be uniformly applied by companies and consistently enforced by auditors and regulators, would benefit our analyses of companies globally.

[1] The opinions stated herein are intended to represent Standard & Poor's Rating Services views. Our current ratings criteria are not affected by our comments on the Staff Paper.

[2] See Standard & Poor's Ratings Services Comment Letter on the Commission's Proposed Rule, *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (File No. S7-27-08), April 20, 2009.

We believe the capital markets would benefit from the development of a global accounting system that accommodates the increasing complexity of business and finance in a timely and responsive fashion. In our view, the current situation, with two primary systems--International Financial Report Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP) working in tandem--is not optimal.

We generally support the "condorsement" approach to incorporating IFRS in U.S. accounting standards, but as further outlined in this letter, there are several aspects discussed in the Staff Paper that we do not support. In particular, although we agree that the Financial Accounting Standards Board (FASB) has a key role in adopting global standards in the U.S., we believe certain aspects suggested by the Staff Paper could impede consistency and comparability in financial reporting. In addition, the Staff Paper outlines two elements of transition that we do not view as optimal: 1) a long transition period of five to seven years; and 2) maximizing the number of IFRSs subject to 'prospective' application.

The convergence efforts of the FASB and the International Accounting Standards Board (IASB) are ongoing. However, we do not believe failure to complete all convergence projects should be the sole or a primary reason to delay adoption of IFRS in the U.S.

We are encouraged by the efforts of both Boards to improve and converge their standards and recognize that there is still work to complete. In this regard, we believe conversion to a single set of standards may introduce greater resources to the creation of a comprehensive financial reporting framework and a system that could ultimately be more complete and better able to accommodate changing circumstances and varying economic environments[3].

The Condorsement Approach: Role Of The Standard-Setters

As previously stated, we generally support the concept of condorsement as outlined in the Staff Paper. We also support the continuing role for the FASB in providing support, resources, and expertise to the IASB and in participating in developing and improving international accounting standards as outlined in the Staff Paper. We believe the cooperation of the FASB and the IASB will enhance the process of developing accounting standards. We agree the FASB is an appropriate organization to endorse IASB standards for incorporation into U.S. GAAP in support of U.S. constituents. The FASB has the requisite experience in accounting standards, and understands the needs of financial statement users in the U.S. Moreover, the FASB has developed knowledge of international accounting standards and has a working relationship with the IASB through the ongoing convergence projects.

We support the two-phased role of the FASB in the condorsement approach as outlined in the Staff Paper. First, the FASB should complete the convergence process already underway. In the second phase, the FASB would not set international standards but would present U.S. views to the IASB for its deliberations, as would other constituents in the U.S. and around the world. Once the IASB has deliberated the views of the FASB and other constituents and issued a new standard, the FASB would consider these for endorsement. However, as further discussed

[3] Ibid Note 2.

below, we do not believe it would be valid to reject a new IFRS solely on the basis that the IASB has not accepted the FASB's views on a particular accounting standard.

We agree with the position taken in the Staff Paper that the FASB should play an active role by providing input and support to the planning, development, and deliberations of the IASB in its standard setting processes after the convergence phase is complete. However, in our view, the authority to reject, modify, or add to international standards should be restricted. We do not support the power to create "carve-outs" or modify IFRSs in a manner that would result in a U.S. version of IFRS. In our view, this will go counter to the main premise of the move to IFRS and lessen global consistency and comparability. We agree with allowing the FASB to require additional disclosures beyond those specified by IFRS, particularly, in our view, when they would help users of financial statements better understand the business and financial risks of companies. We believe such additional disclosures should enhance transparency without reducing comparability or introducing unintended ambiguity.

We do not support the power to create supplemental or interpretative guidance the IASB has rejected after the conclusion of its standard-setting deliberations and due process. We believe the IFRS Interpretations Committee (formerly known as IFRIC), with its mandate to review IFRS accounting issues with an aim at reaching consensus (or using another appropriate voting means) on the appropriate accounting treatment through interpretations and providing authoritative guidance, would be the appropriate interpretive body. The IFRS Interpretations Committee represents a variety of countries (including the U.S.), and its interpretations should result in more globally consistent guidance. Clearly, country standard setters, the FASB included, could participate and assist in that process.

The Staff Paper states modifications by the FASB to IFRS should be "rare and generally avoidable" and that the FASB will exercise this authority in unusual circumstances so that U.S. GAAP will remain consistent with IFRS. The current deliberation experiences between the FASB and IASB and their (not uncommon) inconsistent or somewhat divergent outcomes (e.g., balance sheet offsetting, insurance contracts, and financial instruments) are examples of the extreme difficulties that exist in reconciling the two accounting regimes. Current experiences exemplify how the future may play out. We therefore again maintain that the authority of the FASB to reject, modify, or add rules post finalization by the IASB should be restricted (excluding the additional disclosures we have previously noted). We agree with the Staff Paper that rejection of an IFRS by the FASB should be a rarity, and believe the criteria for rejection should be rigorous and limited to extraordinary circumstances, such as financial reporting that would be misleading.

We also expect the FASB would consider for endorsement new IFRSs so that they are effective in the U.S. at the same time as the rest of the world. This should not be a problem, especially if the FASB remains actively involved in the standards setting processes of the IASB. The endorsement of IASB standards into U.S. GAAP has the advantage of maintaining the term U.S. GAAP, frequently found in regulations and legal agreements. Ultimately, U.S. GAAP and IFRS will be the same.

Furthermore, we would support a proactive role for the Commission in standard-setting governance, monitoring, and other active participation as outlined in the Staff Paper. We support the SEC retaining ultimate authority to establish financial reporting requirements for public companies with securities registered in the U.S. We would expect the SEC's role in issuing reporting and accounting guidance to be limited and infrequent, and would not create a U.S. version of IFRS. We agree that continued robust involvement of the SEC in its oversight role aligns with its responsibility to protect investors, maintain market integrity, and facilitate capital formation.

To summarize, after the convergence projects are completed, the FASB's role would change from a principal standard setter to a participant in the process by presenting U.S. views to the IASB and endorsing of international standards. The Commission will continue its oversight role of the FASB and accounting standards in the U.S.

The Transition Period Should Be Minimized
Ideally, the transition from U.S. GAAP to IFRS for U.S. companies would be concurrent--as it was in Europe--or near concurrent.[4] As discussed below, transition should maximize the use of retrospective implementation. If the transition is not concurrent, we believe a five- to seven-year transition period is too long to achieve global harmonization. A lengthy transition period, with gradual adoption and convergence of standards, potentially would create additional analytical hurdles and possibly affect covenants, regulatory requirements, and contractual arrangements, complicating the analysis of the business and financial risks of U.S. issuers. This could require further analytical adjustments merely to achieve comparability. For example, we do not believe it would be appropriate for companies to implement new accounting standards every year as the FASB endorses individual IFRSs in the long transition period. We also do not believe this approach will work, because accounting standards are not in all cases modular and many would need concurrent implementation. In addition, users of financial statements would need to contend with monitoring and accommodating potentially extensive and continuous change during the transition period. Therefore, drawing out the transition over five to seven years would potentially create unneeded complexity and confusion.

A Retrospective Transition Is Preferable
Regardless of the transition period ultimately chosen, we believe that transition should maximize the use of retroactive implementation of IFRS--not prospective application, as suggested in the Staff Paper. Prospective transition may be advantageous for preparers (e.g., cost savings and less complex implementation); however, it would hinder users' ability to analyze financial trend information. A key objective of our analysis is global consistency and comparability of measures derived from the financial reports, period-over-period and between entities. Restated financial statements will help us identify and analyze trends in an appropriate manner, especially if the transition is not concurrent; we would prefer three years of restated income and cash flow statements and two years for the statement of financial position in the year of adopting an IFRS accounting change. We recognize that there may be cases where retrospective application may not be feasible (e.g., estimates used in fair value of assets and hedge accounting). In these circumstances, users would benefit from qualitative discussion in

[4] Ibid Note 2.

the financial statements when retrospective limitations exist that are meaningful to analysts' understanding when comparability is not achieved, and the nature of those potential drivers.

The general principle of IFRS 1, "First-Time Adoption Of International Financial Reporting Standards," is that entities apply IFRS standards retrospectively in their first IFRS financial statements, with only certain exceptions and exemptions to retrospective application. We believe adoption of IFRS in the U.S. should follow the principles of IFRS 1.

Adoption In Advance Of Full Condorsement

The Staff Paper recognizes that certain U.S. issuers would rather not have a gradual transition to IFRS, but instead have the option for a full adoption of IFRS. As stated in our prior comment letters to the Commission on the adoption of IFRS in the U.S.[5], we believe the Commission should give U.S. issuers the option to report using IFRS prior to full condorsement or adoption. This would allow companies that view IFRS as more appropriate for their investor base to convert. The Commission has recognized that IFRS is a high-quality set of accounting standards, as evidenced in 2007 when it permitted foreign issuers to discontinue reconciling their IFRS financial statements to U.S. GAAP. In our view, early adoption by companies across diverse industries would provide opportune insights on the changes in financial information; promote global consistency; create a greater sense of urgency for--and commitment to--IFRS; and allow users such as investors, analysts, regulators, and tax authorities to become acquainted with using IFRS financial statements. The option to adopt early would work best if the transition period were shorter than five to seven years.

Lack Of Certainty In IFRS Adoption

We believe the current lack of certainty regarding IFRS adoption is a key obstacle in preparing for IFRS in the U.S, whether by preparers, analysts, investors, or other users of financial statements. Consequently, we suggest the Commission provide greater specificity on its intentions about whether and how to adopt IFRS for U.S. reporting.[6]

Enhanced Disclosures And A Disclosure Framework

We believe it is important that a robust disclosure framework accompany the conversion to IFRS in the U.S. We reiterate our views on the need to develop a comprehensive, principled disclosure framework as part of the conversion process[7]. The disclosure framework should require that companies provide comprehensive information about accounting polices and their applications, significant assumptions, composition of account balances, and forward-looking analysis. Beyond its obvious long-term benefits in meaningfully enhancing the usefulness of financial statements, we believe that the adoption of a disclosure framework prior to conversion will greatly facilitate users' understanding of the effects of the changes.

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[5] Ibid Note 2.
[6] See Standard & Poor's Ratings Services Comment Letter on the Commission's *Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers* (File No. 4-607), October 18, 2010.
[7] Ibid, Notes 2 and 5.

We thank you for the opportunity to provide our comments, and we would be pleased to discuss our views with members of the staff. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

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