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August 2, 2011

Mr. James L. Kroeker, Chief Accountant
United States Securities and Exchange Commission
100 F Street N.E
Washington, DC 20549

File Reference: *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*

Dear Mr. Kroeker:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to comment on the paper by the Staff of the U.S. Securities and Exchange Commission *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* ("Work Plan"), dated May 26, 2011.

The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts[1]. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

Consistent with our prior letters on the subject, we support the goal to move to a single set of high quality, globally accepted accounting standards. The following discussion provides an overview of our observations, concerns and recommendations relative to the Work Plan for your consideration.

<u>Incorporation of IFRS into U.S. GAAP</u>

Overview of the FRC's support

The FRC supports the goal of a single set of high quality, globally accepted accounting standards and the potential approach ("Potential Approach") for incorporating IFRS into the U.S. financial reporting system as outlined in the Work Plan. For many years the Commission has acknowledged the great promise of a single accounting language, but prudently proceeded with caution to avoid the risks of premature adoption. While alternatives exist to the Potential Approach, they do not, in our view, sufficiently mitigate the risks inherent in them, as discussed below. The Potential

[1] Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

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Approach, while not without risk, offers significant improvements over alternatives and provides mechanisms for mitigating inherent risks. Further, the Potential Approach moves toward the aforementioned goal, while offering a balance between benefit, cost and disruption.

While the FRC recognizes the benefits of the Potential Approach, and acknowledges the advantages it has over alternative approaches, there are concerns that need to be addressed. As discussed further below, the most prominent areas to be addressed are improvements to mitigate risks to the IASB's success and the need for greater substance to the potential role of the FASB than presented in the Potential Approach.

Benefits of the Potential Approach

The Potential Approach offers a practical and prudent method that is consistent with the goal of a single set of high quality, globally accepted accounting standards. The Potential Approach maintains the goal while retaining the SEC's current oversight structure that delegates standard setting authority to the FASB. The continued existence of the FASB will ensure the protection of U.S. investors if international standards, or standard setters, evolve in a manner not in the interests of those investors. Specific risks include the IASB's execution of due process, availability of interpretive guidance, adequacy of funding without conflicts of interest and public accountability (please see "Risks to the IASB's Success" below).

The Potential Approach recognizes that full convergence of IFRS and U.S. GAAP may not be achievable but does narrow differences. Narrowing differences in financial reporting will facilitate greater understanding and comparability even if the bases of accounting are not identical. Utilization of accounting principles that are closely aligned but different, is preferable to completely diverse models. By analogy, English language usage differs around the world, but communication among English speakers is easier than between speakers of two entirely different languages.

Partial convergence is also preferable to the U.S. being forced to accept standards that are not in the best interest of U.S. investors or do not provide appropriate consideration of circumstances unique to the U.S. Further, endorsement mechanisms are in use in a number of other jurisdictions.

The Potential Approach also minimizes the cost and disruption of incorporating IFRS into the U.S. financial reporting system. The burden of transition will be felt by all companies, but most significantly by small to medium sized public and potentially private enterprises, particularly those that have limited operations or expansion plans beyond the U.S. For these companies, the burden may be significant yet provide no, or minimal, benefit. The Potential Approach will minimize the cost, and disruption, for private companies by not requiring full conversion on a specified date. An additional benefit of the Potential Approach for private companies is that the FASB would be in a position to consider modifications to accounting standards that may be appropriate for such companies. A further benefit of the Potential Approach is that modification to contracts, and other documents, with references to U.S. GAAP would not be necessary as U.S. GAAP would continue to exist.

Concerns with Alternative Approaches

The FRC considered four other approaches:

1. Full adoption on a specified date ("big bang");
2. Continued convergence;
3. Optional adoption of IFRS by U.S. companies; and
4. Retention of U.S. GAAP without consideration of IFRS.

The FRC believe the Potential Approach is preferable for the reasons indicated below.

Full adoption on a specified date

While realizing the goal of a single set of high quality, globally accepted standards, a key concern with full adoption is the absence of a mechanism to protect U.S. interests if international standards, or standard setters, evolve in a manner not suitable to the needs of U.S. investors. It would be extremely difficult to revert to U.S. GAAP, or a U.S. flavor of IFRS, after the substantial cost and effort by users, preparers, regulators and auditors to convert to the new model. Further, U.S. influence over the international standard setting process may potentially be weakened without its own substantive standard setter and the endorsement process in the Potential Approach.

As a result of the concerns described above, as well as the concentrated, high cost of a "big bang" approach, we believe that this approach among the alternatives considered would likely be subject to the greatest opposition in the U.S. In addition to the outcry that would be heard in Washington from smaller public and private companies about high cost and no benefit, is the perception that the U.S. is ceding its sovereign right to establish accounting standards to a non-U.S. body.

Continued convergence

The Potential Approach also rightly rejects today's status quo as a viable option for the future. The U.S. can't forever expect a special status in jointly developing IFRS. Also, with alarming frequency, the IASB and FASB are disagreeing on important matters (e.g., insurance accounting and financial instruments). To date, the two boards have managed to work well together on several projects despite separate governance, agendas, processes and timetables. But, ad-hoc heroic efforts can only work for so long. Ultimately, process changes are needed to support lasting improvement. By revising the FASB's role in IFRS, the Potential Approach recognizes the importance of process change so that standard setting can continue even if the Boards are not in complete agreement.

Optional adoption of IFRS by U.S. companies

This approach is not consistent with the goal of a single set of high quality, globally accepted accounting standards and undermines comparability of financial statements. Similar to the concern expressed under full adoption above, U.S. influence over the international standard setting process may potentially be weakened as compared with the current state and the Potential Approach. An additional risk associated with this approach is the U.S.'s ability to migrate away from IFRS, if deemed necessary, diminishes if a significant number of U.S. companies begin filing under IFRS.

Retention of U.S. GAAP without consideration of IFRS

The FRC believes the merits of a single set of high quality, globally accepted accounting standards are sound and this approach abandons the goal. The approach would result in IFRS becoming a body of accounting standards that is predominantly European based (with certain other markets), which is contrary to the stated goal. This approach would also eliminate the U.S.'s influence with the IASB, which would not be desirable considering the globalization of capital markets. The protection of U.S investors would be adversely impacted by such a lack of influence as U.S. investors would need to continue to rely on IFRS to the extent they consider investments in foreign private issuers or companies listed on stock exchanges outside the U.S. As a practical point, this approach would also result in increased resource costs for global U.S. registrants as U.S. GAAP expertise outside the U.S. is becoming increasingly less available and, therefore, more costly. It would also add to costs as global businesses would need to maintain multiple accounting systems and would make it more difficult for U.S. businesses to understand and compare the financial statements of potential acquisitions, competitors or trading partners.

Risks to the IASB's Success

The FRC believes there are risks to the IASB's success that should be addressed, and we urge the Staff to continue to focus on improvements to mitigate those risks. The FRC has recommendations to strengthen IFRS Foundation Trustees' oversight and IASB processes, as noted in our attached letter to Tom Seidenstein, Chief Operating Officer of the IFRS Foundation, dated July 20, 2011, in which we elaborate further on some of the points below.

Execution of due process

The FRC is concerned the IASB has been rushing to finish convergence projects and may be making decisions to avoid re-exposing a proposed standard. Further, the Board has, on a number of occasions, truncated the time it gives constituents to comment on proposed standards to such a point that it is unrealistic the IASB will receive meaningful input. However, we note with appreciation that a number of recent re-exposure decisions have departed from these trends. It is critically important that the Board considers and re-deliberates all of the issues raised by constituents in comment letter responses to the revised EDs, not simply those that had been identified prior to issuance of the revised proposal. We are also concerned the IASB's field testing is not sufficient to ensure implementation issues, unintended consequences and industry specific situations are adequately considered. Field testing should be broadened and conducted on a regular basis not "in rare circumstances". Finally, the FRC also believes the IASB should be prevented from overriding necessary steps in the due process as they did with the amendment to IAS 39.

Interpretive guidance

We perceive that the IASB has been reluctant to interpret its standards and we encourage the IFRS Interpretations Committee to become more active. While we applaud principle-based standards, principle-only standards are problematic whenever practice interprets the standards differently, and resulting reporting is excessively diverse. In those cases, interpretation/guidance is needed to narrow practice to acceptable levels of diversity. The goal is high-quality, comparable reporting, not principle only standards. A more active Interpretations Committee is critical to the Foundation's goal of promoting consistent application of IFRS.

Adequacy of funding

Obtaining adequate, sustainable funding without conflicts of interest is critical to the IASB's success. We do not believe there are any circumstances where the funding of the IASB's activities and its public accountability should ever be linked.

Public accountability

The FRC believes the IASB should be accountable to the Foundation, and indirectly, to the Monitoring Board, for the quality of the standards it issues. The Foundation should take great care to avoid the possibility that public accountability becomes governmental or regulatory interference in, and control over, the standard setting process. The IASB's independence needs to be protected from political interference, and pressure from regulators, at all costs. Quality financial reporting standards serve the public interest exclusively through transparent reporting to investors and creditors. A broad interpretation of "public policy" could invite government interference in standard setting, particularly in times of crisis.

Role of the FASB

Under the Potential Approach, we believe the FASB should create a framework of guiding principles, based on the SEC's objectives, that establish how the FASB will evaluate a new IFRS for inclusion in U.S. GAAP, and when it will consider modifications or amendments to IFRS. An appropriately crafted framework of guiding principles will allow the FASB to intervene when circumstances unique to the U.S. (e.g., income taxes, U.S. specific legislation and other unique circumstances) or the needs of U.S. investors are not being adequately addressed. While the FASB should be empowered to depart from international standards, justification of the departure should be required. However, we believe the notion in the Potential Approach that such departures should be "rare and generally avoidable" puts too tight a constraint on the FASB's ability to fulfill its endorsement role.

The FASB must continue having a substantive role in the IASB standard setting process to ensure the interests of U.S. investors are adequately protected. Without a substantive role, the activities of the FASB presented on page 9 of the Potential Approach would not be realistic. In addition, the FASB's role in the development of new standards must be proactive and not reactive. The current situation for the hedging and pension projects where the Boards' processes are out of sync is not in the best interests of U.S. investors. Further, a substantive FASB role is needed to attract qualified people to the FASB and reduce risk if the Potential Approach is not successful.

We recognize that a substantive role for the FASB, as contemplated herein, may well preclude U.S. issuers who are compliant with U.S. GAAP from asserting that they are in compliance with IFRS as promulgated by the IASB. We believe this is an acceptable outcome as a result of the FASB having a substantive role in the standard setting process.

As noted in our July 20, 2011 letter to Tom Seidenstein, the FRC believes the IASB should provide more implementation guidance than we have seen. If the IASB does not provide sufficient guidance, then a substantive FASB would be well placed to do so for the U.S. The existing U.S. GAAP implementation guidance could be useful to the extent it is consistent with IFRS. In addition, the FASB could potentially prescribe additional disclosure requirements to comply with national laws and regulations, if required.

We believe the FAF and FASB should follow due process for making any major changes to the existing U.S. standard setting infrastructure, processes, traditions or standards as part of the Potential Approach. In addition, the FAF and FASB should develop a framework for ongoing due process, as they have today, to ensure the consequences of IFRS adoption into U.S. GAAP have been adequately considered. As part of the FASB's due process, the FRC recommends the FASB develop an approach for adequately evaluating implications of global standards on small, private and public enterprises that have no global aspirations. The cost to, and disruption to the operations of, these entities should be carefully weighed against the benefits, if any.

Other Matters

The FRC believes achievement of the goal of a single set of high quality, globally accepted accounting standards is best supported by consistent regulatory enforcement around the world and we urge the SEC to work with its fellow regulators in that regard. In addition, the FRC also encourages the IFRS Foundation to consider accepting nominations for IASB Board members from major capital market standard-setters. This will help to ensure an appropriate level of involvement from those responsible for protecting investors (e.g., regulators and standard setters).

We encourage the SEC and FASB to carefully consider the timing and methods of incorporating IFRS into U.S. GAAP. Short lead times, recurring transitions, and retrospective treatment are big drivers of costs, increase risks of errors, and, in some cases, are problematic for investors. Transition decisions inevitably require practical considerations. We suggest the SEC and FASB adopt a philosophy of longer lead times and batching groups of changes to reduce the number of recurring transitions. Doing so would enable better disclosure and less disruption, and promote investor education and understanding. We also suggest you consider pro-forma disclosure in place of full retrospective adjustment. We appreciate that investors need historical information to establish new trend lines following revised accounting. However, in many cases, pro-forma disclosure outside the financial statements may be an acceptable yet more cost effective way of meeting investors' information needs.

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We would be pleased to discuss these comments with you at your convenience. I can be reached at (212) 484-8112.

Sincerely,

Allan Cohen
Chair, Financial Reporting Committee
Institute of Management Accountants

cc: Hans Hoogervorst, Chairman, IASB
Tsuguoki Fujiuma, Vice-Chair, IFRS Foundation Trustees
Robert Glauber, Vice-Chair, IFRS Foundation Trustees
Tom Seidenstein, Chief Operating Officer, IFRS Foundation
Leslie Siedman, Chairman, FASB
John Brennan, Chairman, FAF
Terri Polley, President and CEO, FAF

Attachments:
July 20, 2011 Letter on Strategy Review

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July 20, 2011

Mr. Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Report of the Trustees' Strategy Review, *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*

Dear Mr. Seidenstein,

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Report of the Trustee' Strategy Review, *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade* (Strategy Review).

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts[1]. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

The Strategy Review includes many good ideas that improve the Trustees' oversight of the International Accounting Standards Board (IASB) and the Appendix lists those ideas we view as particularly important. However, to further strengthen Trustee oversight and the IASB processes, we suggest the following additional steps.

Goals

We agree with the conclusion in the Strategy Review that the IASB's goal is to serve investors and creditors as the primary users of financial reporting and to promote transparent reporting as being in the best interests of markets and governments. As we stated in our April 7, 2011 letter to the IFRS Foundation Monitoring Board (Monitoring Board), we believe the IASB should not establish standards to serve the needs of prudential regulators. Prudential regulators have other means available to them to assist

[1] Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

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them in promoting safety and soundness of the entities they regulate. Unlike investors and creditors, prudential regulators are not dependent on the IASB to set financial reporting standards that provide them information that enables them to make decisions.

While we agree with the goal of seeking a mechanism to monitor compliance with IFRS and flagging entities that assert compliance without adopting IFRS fully, we do not believe it is the Foundation's or IASB's responsibility. Rather, we believe the responsibility for monitoring compliance and identifying countries that assert compliance without actually complying lies with the members of the Monitoring Board and other securities regulators.

We agree with the Strategy Review that the Foundation should pursue the objective of consistent application of IFRS by holding the IASB accountable for issuing standards that are clear, understandable and enforceable. However, the Foundation should also require that the IASB issue standards that preparers can reasonably apply. Standards that are conceptually pure but overly difficult and/or costly to implement are in no one's best interests.

Interference with Technical Agenda

The FRC believes that the IASB's decision-making process for adding projects to its agenda must be independent. We are concerned that Foundation and Monitoring Board involvement in the IASB's agenda, including suggesting agenda topics, would damage the perception of independence. Therefore, we believe that the Constitution should explicitly prohibit the Foundation and Monitoring Board from influencing the technical agenda. Security regulators should offer views on agenda matters through normal technical channels and limit the activities of oversight bodies exclusively to oversight matters.

Public Accountability and Interference

While we believe that the IASB should be accountable for the quality of the standards it issues, we believe it should be accountable to the Foundation and, indirectly, to the Monitoring Board. The Foundation should take great care to avoid the possibility that public accountability leads to government interference in and control over the standard setting process. The IASB's independence needs to be protected from political interference at all costs.

The FRC is particularly concerned with the apparent linkage in the Strategy Review of public accountability and funding for the IASB's activities. We do not believe there are any circumstances where the funding of the IASB's activities and its public accountability should ever be linked.

We are also concerned about vague references in the Strategy Review to "public policy" when discussing the goals of IASB standards. Quality financial reporting standards serve the public interest exclusively through transparent reporting to investors and creditors. A broad interpretation of "public policy" could invite government interference in standard setting, particularly in times of crisis.

Foundation's Oversight of Due Process

The FRC has previously expressed concerns about the IASB's due process (as noted in our April 8, 2011 to SEC Chair Mary Schapiro). We are concerned that, despite public assurances that it will take the time needed to issue high quality standards, the Board is rushing to finish the convergence projects and may be making decisions to avoid the need to re-expose a proposed standard. Further, the Board has truncated the time it gives constituents to comment on proposed standards to such a point that it is unrealistic that the IASB would expect to receive meaningful input.

We agree with the recent decision by the IASB and Financial Accounting Standards Board to re-expose the Revenue Recognition Exposure Draft. However, we note that the Boards concluded they were not required to re-expose under their current process rules. If the current rules can be used to technically support no re-exposure in such circumstances, then the rules need to be changed as we believe that re-expose is good due process on major projects where re-deliberations have resulted in significant changes. Re-exposure reduces the risk of unintended consequences and identifies areas requiring implementation guidance. Posting staff drafts of near-final standards for limited periods is not an effective substitute for re-exposure. We suggest that the Foundation require the IASB to re-expose a proposed standard for major projects if significant changes have been made during re-deliberations, even if such changes are consistent with constituent comments. Re-exposure gives constituents who had not commented because they supported the proposals in an Exposure Draft an opportunity to comment if what they supported has been changed during the re-deliberations.

Further, we believe the Constitution should explicitly prohibit any override of mandatory steps. Specifically, there should never be a recurrence of the approach used in project to amend IAS 39 where the Foundation permitted the IASB to issue the proposed amendment without giving constituents the opportunity to comment. We do not see how waiving mandatory due process steps could ever be in the interest of investors and creditors.

Our perception is that the Trustees' due process review has been too back ended and we believe that the review should not be limited to a step just before the print button is pressed. We believe the Trustees need to monitor due process on a real time basis, especially on major projects. The DPOC must have a specific ongoing process. We suggest that the DPOC regularly consult with constituents about the adequacy of IASB's due process. The DPOC should develop an outreach process so that Trustees receive timely feedback from users and preparers.

In addition, consistent with our comment letters on recent Exposure and Staff Drafts, we believe that robust field testing is an essential element of due process and suggest that paragraph 104 of the Due Process Handbook be amended. The FRC believes that field testing:

- includes seeking input from a broad base of constituents (preparers, investors, creditors, regulators, etc.) through in-depth interviews, detailed questionnaires or by parallel processing of selected transactions;
- should not be limited to brief small group meetings with constituents and;
- does not always require full scale processing of all transactions through a company's systems over an extended period of time and preparing financial reports using the proposed standard.

The IASB should conduct such field testing as described above on a regular basis and not "in rare circumstances". The FRC believes that such field testing would test the operationality of proposals, highlight implementation issues, reveal untended consequences and uncover industry specific issues.

Oversight Independence

Consistent with our comments to the Monitoring Board, we believe the Foundation should separate the roles of IASB Chair and Foundation Chief Executive. Combining the roles leads to a perception that the Foundation's oversight of the IASB is not independent of the IASB.

While we agree that the standards the IASB issues should be subject to post-implementation review to determine if due process was adequate, we believe the Foundation should manage that review. We believe the post-implementation review process is part of the Foundation's oversight responsibility as it gives the Foundation insight into the IASB's process of issuing a standard. In particular, the process allows the Foundation to see how well the IASB responded to issues raised by constituents and whether concerns on guidance that subsequently resulted in differences in application or regarding the need for further application guidance were adequately addressed. While we believe the Foundation should be able to use IASB staff to conduct the post-implementation review, the Foundation should manage the process. The involvement of the IASB staff in the review process would facilitate the IASB's identification of any issues it may wish to add to its agenda.

IFRS Interpretations Committee Mission

We agree that the IASB should work with regulators to identify areas where the application of IFRS is divergent and should issue guidance to narrow differences. However, we believe this will necessitate a more active IFRS Interpretations Committee than we have seen to date.

The Trustees should clarify the mission of IFRS Interpretations Committee. Given the IASB's goal of principles-based standards, we believe that the Interpretations Committee has been reluctant to address issues. However, principles-based standards require application guidance and examples for understandability and consistent application.

Ideally, the standard would include necessary application guidance and examples that promote consistent application of the standard, but we do not live in an ideal world. Therefore, the IASB needs to be prepared to provide guidance when diversity in practice or an implementation issue arises. We believe a more active Interpretations Committee is critical to the Foundation's goal of promoting consistent application of IFRS.

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We would be pleased to discuss these comments with you or the Trustees at their convenience. I can be reached at (212) 484-8112.

Sincerely,

Allan Cohen

Allan Cohen
Chair, Financial Reporting Committee
Institute of Management Accountants

cc: Hans Hoogervorst, Chairman, IASB
Ian Mackintosh, Vice-Chairman, IASB
Tsuguoki Fujiuma, Vice-Chair, IFRS Foundation Trustees
Robert Glauber, Vice-Chair, IFRS Foundation Trustees
Masamichi Kono, Acting Chairman, Monitoring Board of IFRS Foundation

APPENDIX

The Strategy Review includes has many good ideas, including the following.

- The goal of all countries adopting International Financial Reporting Standards (IFRS), without modification.
- The goal to serve investors and creditors as the primary users of financial reporting, and the assertion that transparent reporting is in the best interests of markets and governments.
- Seeking a mechanism to monitor compliance with IFRS and flagging entities that assert compliance without adopting IFRS fully.
- Working with regulators to identify divergent application and issuing guidance (including increasing the volume of the Interpretations Committee's interpretations) to narrow divergence.
- The separation of regulatory accounting principles and generally accepted accounting principles.
- Clarifying the Foundation's oversight process and reporting publicly on its oversight.
- Using Foundation staff rather than IASB staff to oversee IASB due process.
- Adding a requirement for the IASB to consult with the Foundation's Due Process Oversight Committee (DPOC) before skipping a non-mandatory due process step.
- Deferring the decision to broaden the mission (to address not-for-profits, governmental accounting, and sustainability reporting) until major projects are further along.
- Emphasizing education of constituents.
- Requiring the IASB to report on why projects on its agenda are priorities.
- Requiring the IASB to establish methodology for field tests and effect analyses.
- Requiring post implementation reviews of IASB standards.
- Adding XBRL experts to the IASB staff, and considering XBRL effectiveness as a project progresses rather than when a project is complete.
- Locking in sustainable long-term funding.