financial executives international

COMMITTEE ON CORPORATE REPORTING

August 2, 2011

Ms. Mary Schapiro, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Chairman Schapiro:

The Committee on Corporate Reporting (CCR) of Financial Executives International (FEI) is writing to share its views on the SEC's *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 "Work Plan"). FEI has been a consistent supporter of convergence and the goal of a single set of high quality accounting and financial reporting standards worldwide. We therefore appreciate the opportunity to provide our views on the recently issued Work Plan, which we expect will provide the framework for future rulemaking proposals in this area.

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

CCR observes that there are two equally strategic imperatives that bear on the SEC's consideration of this matter: (1) the desire for single set of accounting standards that would result in comparable financial reporting by all enterprises, and (2) the need for high quality, operational accounting standards that meet the needs of U.S. investors and can be applied on a cost-effective basis in the U.S. regulatory environment. CCR also observes that environmental factors bear significantly on the acceptability and efficacy of a single global set of accounting standards from our perspective. These include but are not limited to: the readiness of the U.S. system to accept IFRS, the diverse needs of large, multi-national issuers vs. largely domestic registrants, the rigor of regulatory regimes outside the U.S. in enforcing compliance and consistent application of IFRS and the effect that economic, legal and business environments in different geographic areas have on the suitability of accounting principles. Over the course of the past three years CCR has been actively involved in the standard setting processes of the FASB and the IASB as they have pursued the completion of the major MOU projects and our experience with those processes have, in part, helped to shape our views on the proposed approach outlined in the Work Plan.

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It is CCR's overall view that the Work Plan does a reasonable job of incorporating many of these environmental factors in developing an approach that could work for U.S. constituents (investors, companies, auditors and other key stakeholders). However, CCR believes that the design of the model needs to ensure the continuation of a vibrant and engaged U.S.-based standard setting organization that has the requisite authority and influence to ensure that newly developed global standards fully and appropriately meet the needs of U.S. constituents. This would include ensuring that the global standards are operational and can be cost-effectively applied in our regulatory environment. We therefore recommend that revisions be made to the overall proposal that support a substantive role for the FASB in the global standard setting process. We believe that the most appropriate way to ensure this occurs is to formalize the means of engagement of the FASB in the IASB process and to provide for greater authority for the FASB in the endorsement process, subject to a framework as described below. We believe that these steps will ensure that U.S. views are appropriately considered in the process. It also provides for the continuity of U.S.-based standard setting in the event that the global standard setting process fails to adequately meet the needs of our constituents.

The Reporting Environment and its effects on Global Accounting Standards

CCR has long supported the development of a single set of global accounting standards and we continue to believe that this is the right goal. We also have recognized that this is the ideal and that the practical realities of the diverse reporting environments around the world would make it unlikely that this goal could ever be completely achieved. Among other things, differences in language (and translation), culture, reporting cycles, legal and tax systems will unavoidably affect how global accounting standards are interpreted and applied to some degree. But there are other factors as well that have the potential to profoundly affect the level of convergence actually achieved. These are discussed below:

1. **Rigor of regulatory environments** – Regulators in each jurisdiction must regularly and rigorously review application of the standards to ensure compliance. The deterrent effect of potential restatement for inappropriate application of global standards must be real and credible.

2. **Quality auditing standards and practices** – The development of a high quality global set of auditing standards coupled with rigorous oversight of audit practices are essential to achievement of consistent and comparable reporting.

3. **Level of engagement and effectiveness of interpretive body** – When diversity in application is identified, actions must be taken by the designated interpretive body to provide guidance that will supplement the global standard and will be binding in each jurisdiction.

We believe the structure and processes in the US regulatory environment provide reasonable assurance to investors that accounting standards are being applied as intended. We believe that other jurisdictions must be able to provide a similar level of assurance if we are to make significant progress in eliminating differences. If the level of rigor is different across jurisdictions, investors will have to cope with false comparability: where the requirements of the standards in each jurisdiction are the same but the interpretations and practices are inconsistent. This circumstance is potentially even more challenging for investors than today's differences in accounting requirements because a single answer would be assumed to exist but the differences in application would not be formally documented or well understood. Even if we were fully supportive of all aspects of the Work Plan, we would hesitate to endorse it becoming operational until there is significant global development in these areas; our sense is that more progress is needed. We strongly recommend to the Commission that serious attention be given this year to researching the relative strengths and weaknesses of the major regulatory, auditing and interpretative bodies who will be charged with the regulation and enforcement of IFRS and the auditing of compliance thereof. The Commission should review the results of this analysis prior to making a decision on the incorporation of IFRS into US GAAP.

There also are differences that result from the diverse economic environments in which standards are applied, which affect how standard setters think about issues and reach conclusions. CCR observes that accounting standards, and conceptual frameworks on which they are based, involve matters of significant judgment, so it is difficult to conclude definitively that decisions about concepts and principles are objectively "right". Accordingly, two groups with equal levels of technical skill and knowledge can study an issue and reach different answers that each group believes is appropriate. CCR believes that a good accounting principle or standard is one that provides a financial reporting result that is useful to investors, is consistent with the underlying economics, and can be produced at a reasonable cost. Inevitably, there will be jurisdictional differences in historical accounting practices, in the importance of the underlying business activity or event affected by the standard, in the needs of investors, and other considerations that affect how the principles are developed.

For example, in June 2011, the FASB and the IASB reached different conclusions on the principles for when offsetting would be required in financial instrument transactions with a counterparty when a legal right of offset exists pursuant to a master netting agreement. The IASB conclusion effectively requires gross presentation in most instances, whereas the FASB conclusion requires net presentation. Valid and well-reasoned arguments for each view were presented by both preparer and investor constituents in Europe and the U.S. In the end, the decisions by each Board are consistent with the expressed views of key stakeholders in those jurisdictions as well as historical practices. The Boards are considering whether to require disclosures to enable investors to reconcile between the two views.

Another example of this kind of diversity can be found in the current MOU project on Accounting for Financial Instruments. The financial reporting improvements sought in this project are critical to investors and regulators – perhaps more so than those offered by any other joint project. Given the importance of the subject, it is imperative that the FASB and IASB reach essentially the same conclusions on all of the central elements. However as of today, after years of effort, the two boards have reached diverse conclusions on two significant areas of the overall project – financial instrument classification and measurement and hedging. As with the aforementioned legal right of offset issue, valid and well-reasoned arguments have been put forth by both Boards in support of their respective positions.

We note that these developments are indicative of the reality that some level of differences that are inevitable. Some of them may actually be necessary in order to fairly reflect differences in circumstances. CCR believes that even if we are unable to achieve full convergence, continuing progress in eliminating differences would still represent an improvement in reporting and worthy of continued efforts toward this goal.

Quality Standards and Due Process

In addition to convergence, it is equally if not more important for U.S. companies that the resulting standards are high quality and capable of being applied on a cost effective basis. Our regulatory environment embraces one of the most highly developed and technically demanding reporting and control frameworks in the world. Accordingly, setting standards that work well here is a difficult task that requires a thoughtful and thorough due process that seeks to understand what will be done in practice and incorporates an element of practicality to the extent that the requirements would otherwise be non-operational. The standard-setting process must also recognize the significant resources required to implement new standards on a global basis – so consideration of cost-benefit and practical expedients are paramount. It also is worth noting that when a new standard contains flaws at an application level, the corrections necessary here will be instituted through a public process that requires revisions to be exposed for comment and then issuance of formal amendments. If the process for setting global accounting standards is unable to meet these needs, companies in the US will be at a competitive disadvantage relative to issuers that operate in other regulatory environments where more latitude may be permitted.

The sum total of the above considerations argues for a strong standard setting presence in the U.S. in the form of the FASB, which maintains a vigilance over US financial reporting issues and will be a voice at the global standard setting table to ensure that our needs are not overlooked. It also provides a fall-back position to restore a full U.S. standard setting function in the event the global standard-setting process outlined in the Work Plan proves to be unworkable or is incapable of meeting U.S. requirements.

Specific Comments on the Potential Method for Incorporation

CCR is supportive of the general direction outlined in the SEC's Work Plan to incorporate converged standards over a defined time period and with appropriate consideration of the needs of U.S. investors and companies. Our specific comments on elements of the Work Plan follow:

- We understand the rationale for retention of US GAAP as the basis for reporting in the U.S. and support that approach. Changing laws and legal agreements to incorporate IFRS is not a value-added exercise. In addition, endorsement into US GAAP of IFRS standards is the only way to implement a phased approach.
- We believe that the endorsement structure outlined in the Work Plan should reflect the reality that there will be instances in which differences of opinion on accounting principles are unavoidable and need to be accommodated. We also note that the level of involvement in the global standard setting process outlined on page 9 could be largely aspirational rather than real if the endorsement process is deemed to be largely perfunctory. Accordingly, we would characterize the likelihood of changes occurring during the endorsement process as "when necessary" rather than "rare" as indicated in the Work Plan. We are concerned that the limited authority accorded the FASB in the endorsement process will diminish, potentially significantly, its ability to influence standards drafted by the IASB.
- We therefore believe that more authority needs to be provided to the FASB in determining whether changes need to be made to global standards prior to incorporation into US GAAP. We would support development of a framework for making those decisions that balances the needs of

investors and preparers for high quality, operational standards that can be cost-effectively applied in the U.S. environment with the desire for a single global standard.

- If the FASB is provided a substantive role in the development of the proposed standard, particularly in the area of researching the effect of proposed principles and disclosures on the U.S. reporting system, it is more likely that U.S. concerns will be addressed prior to issuance of a final standard. This could be accomplished by giving the FASB the ability to not endorse specific principles and disclosures in IASB standards, or to alter them, provided there is an appropriate basis for the change (this is particularly relevant for disclosures, given the quarterly reporting requirements and tight SEC filing deadlines in the U.S.). Similarly, the SEC could request that the U.S. members of the IASB be selected from the FASB, which would have the added benefit of increasing the understanding and buy-in to new proposed standards.
- We agree with a phased approach to adoption. The U.S. registrant population is very diverse with the largest companies benefitting from improved comparability with their foreign competitors and smaller companies, which compete primarily domestically, having little or no benefit and significant costs to convert. A staged approach allows all companies to better plan for and fund conversion costs. The phased approach also allows industry-specific U.S. GAAP to be retained where there is no corresponding IFRS standard (e.g., rate-regulated industries and oil and gas accounting).
- We believe there needs to be a Category 4 in the Transition section – Accounting for Matters Unique to the United States. Every country will have events, laws, customs, etc. which are largely unique to its environment. We would expect it would be the FASB who would provide necessary accounting guidance for US companies in such circumstances.
- We recommend that the SEC give further consideration to the approach to transition to address presentation of historical information on a comparative basis under retrospective application in each phase of incorporation of IFRS with the objective of lowering costs of adoption.
- We believe that the SEC should study the merits and disadvantages of providing an option for U.S. companies to adopt IFRS all at once.

Due Process and Governance

Over the course of the past two years, FEI has written several letters expressing significant concern about the pace of standard setting and the potential consequences it could have on the quality and operationality of the resulting standards. While the pace had moderated to a degree, we remain concerned that there is still insufficient time being spent on vetting alternatives, due to continued adherence to a self-imposed timetable. Such an approach undermines the ability to produce high quality operational standards and has raised questions about the ability of the IASB to fulfill its mission, at least as it relates to creating standards that work in the U.S. environment. That experience has left us unsettled as to whether the IASB, if provided unfettered ability to set standards for the U.S., will discharge that responsibility with appropriate sensitivity to the ability of constituents to respond effectively through its expedited due process.

During informal discussions on technical matters related to proposed standards over the years, a recurring theme of comments made by representatives of the IASB has been on the peculiarities of U.S. reporting system: our need for detailed rules, the litigious nature of investors, etc. In that same vein, representatives have indicated that, as a global standard setter, they have a responsibility to consider the needs of other geographies. We certainly understand and appreciate the difficulty that our regulatory environment presents for standard setters. That said, if the resulting standards do not function well in the U.S. environment then the benefit of global standards will be lost for U.S. companies. Accordingly, while we support an approach and a mechanism by which global accounting standards are incorporated into US GAAP, we believe that the SEC should maintain a strong U.S.-based standard setting presence through the FASB and actively monitor how effective the global standard setter is at developing standards that meet the needs of U.S. investors and other constituents, including the degree to which the requirements are operational and capable of cost-effective application. We believe that the adjustments to the endorsement mechanism outlined above provide greater assurance that those needs will be met.

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We appreciate the opportunity to provide these views to the Commission and would be pleased to meet with the Staff to discuss this matter further and answer any questions.

Sincerely,

Loretta V. Cangialosi
Chair, Committee on Corporate Reporting
Financial Executives International

Cc: James Kroeker, SEC Chief Accountant
Leslie Seidman, FASB Chair
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