

August 8, 2011

Ms. Elizabeth M. Murphy
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File No. 4-600 Commission Statement in Support of Convergence and Global Accounting Standards

Dear Ms. Murphy:

Deloitte & Touche LLP is pleased to provide feedback 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*, published on May 26, 2011 (the “Staff Paper”).

Overall Comments

As noted in our comment letters¹ on the Commission’s (1) *Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers* and (2) *Concept Release Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards*, we strongly support the goal of global acceptance of a single set of high-quality accounting standards and believe that IFRSs are that set of standards.

The need for a single set of high-quality, globally accepted accounting standards has been highlighted by the financial crisis, which has demonstrated the interconnectedness of the world’s capital markets. Markets allocate capital best when participants can make judgments about the merits of various investment opportunities on the basis of comparable, transparent, relevant and faithfully representative financial information. Financial markets and investors, regardless of geographic location, depend on financial information to function effectively. IFRSs are uniquely positioned to provide accounting standards designed to produce relevant and faithfully representative information for users on a global basis. The leaders of the “Group of Twenty” countries have repeatedly reinforced this notion in response to the financial crisis.

¹ See File References S7-27-08 and S7-20-07, respectively.

The SEC also must consider the varying needs and concerns of issuers (e.g., larger, multinational issuers vs. smaller, domestic-oriented issuers), who would be responsible for transitioning to IFRSs. We thus encourage the Commission to consider a multifaceted solution that would allow issuers to address individual transition concerns efficiently and cost-effectively. To that end, we believe that using an endorsement approach (similar to that discussed in the Staff Paper) to incorporate IFRSs into the U.S. financial reporting system, in conjunction with giving issuers an option to adopt IFRSs voluntarily during a transition period, strikes the right balance in addressing the various concerns raised by preparers and others. We agree that an endorsement approach would offer the benefits of (1) a more formal mechanism to address U.S.-specific issues and facilitate the SEC's mandate to protect U.S. investors and (2) the retention of U.S. GAAP as the statutory basis for financial reporting, thus avoiding the need for, and complexities with, changing the references from U.S. GAAP to IFRSs in U.S. laws, regulations, and contracts.

In implementing an endorsement approach in the U.S., we believe the FASB is uniquely qualified to facilitate endorsement and assess whether individual standards will promote the goal of providing investors with relevant and faithfully representative financial information for U.S. companies. In implementing an endorsement approach, the FASB should publicly seek stakeholders' input ("due process") when incorporating existing or new IFRSs into U.S. GAAP. We further believe that the goal of the due process should be to incorporate IFRSs, as issued by the IASB, without modification. This due process would be used to ascertain whether (1) IFRSs would be incorporated correctly into U.S. GAAP if finalized in their exposed form and (2) IFRSs are of high quality, provide relevant information, are operational in the U.S. (e.g., no legal barriers), and can be endorsed in full without compromising public interest and investor protection. We encourage the SEC staff to consider due processes employed by accounting standards boards or other bodies in jurisdictions that use an endorsement approach to incorporate IFRSs (e.g., the Australian Accounting Standards Board, the European Commission).

Today, the SEC is responsible for ensuring that standards issued by the FASB are in the public interest and necessary and appropriate for protecting investors, and to the extent that they are judged not to be, is obligated to make necessary changes. In that same regard, we believe that it would be appropriate for the FASB to override an IFRS principle before incorporating it into U.S. GAAP (both existing IFRSs and future IFRSs subject to endorsement) only if it determines that such an override is necessary in the public interest, to protect U.S. investors or there are legal or other operational barriers to incorporating the IFRS principle as issued by the IASB. We discuss potential modifications further later in this letter. However, we want to stress that the SEC staff and FASB, in consultation with the U.S. investor community and other stakeholders, should develop guidelines for when changes to IFRSs would be necessary to protect U.S. investors.² We believe that these criteria would not permit the FASB to override IFRSs on the basis of individual preferences, thus promoting a single set of global accounting standards. Because the IASB's due process encompasses consideration of the public interest and needs of investors and the FASB will provide input during the standard-setting process, we would expect the need to override a principle in IFRS to rarely arise. In the rare instances in which the FASB decides to override an IFRS, we would expect the SEC to actively oversee the FASB's decision.

² Some may question whether U.S. investors have different financial reporting needs than investors in the United Kingdom or anywhere else in the world. Thus, we believe it would be helpful if the SEC and FASB, in their outreach with the U.S. investor community, could determine whether U.S. investors indeed have different financial reporting needs than non-U.S. investors and, if so, why.

We note that the SEC staff has assumed that for the priority Memorandum of Understanding (MoU) projects (revenue recognition, accounting for leases, and accounting for financial instruments³), “reasonably converged standards will be issued for each of these projects in 2011.” In light of recent tentative decisions on some aspects of these projects both boards have emphasized the need to continue to seek stakeholders’ input and therefore have decided to re-expose some of these proposals for comment. For those projects that may not be re-exposed, the timeline for many aspects have been delayed to allow for more time to ensure final standards are of high quality. As a result, these projects are not expected to be completed until sometime in 2012. We believe that preparers, investors, auditing firms, and others need certainty about whether, when, and how IFRSs will be incorporated into U.S. GAAP before they expend time and effort preparing the transition to IFRSs or an IFRS-based U.S. GAAP. Hence, we would encourage the SEC to remain committed to making a decision in 2011 (or as soon as practicable) regarding the approach of incorporating IFRSs into U.S. GAAP, despite the fact the FASB and IASB will not be able to complete the MoU projects by then.

With respect to the current active MoU projects, we believe that the boards should be strongly encouraged to take the time they need to produce high-quality standards that are fully converged. Despite strong encouragement to converge, we recognize it is possible the boards may not agree on certain aspects of the projects in their final standards. In these projects, if the FASB is required to presume subsequent replacement of the FASB’s newly issued ASU with the newly issued IASB final standard it would upset the current balance of power between the boards on these projects, effectively ending the convergence efforts and the benefits of the boards’ collaboration. In anticipation of the potential for differences in these joint standards, the SEC staff should explore different methods for handling such differences and determine the most appropriate method. For example, the SEC staff could consider whether both standards (i.e., the IASB final standard and the FASB final standard) should be included in U.S. GAAP simultaneously and give issuers a choice to apply either standard for a specified period. After the standards have been effective for some predetermined period, the FASB would be required to determine which method is in the best interest of investors (on the basis of investor outreach). If the IASB’s approach is determined to provide more useful information to investors, the FASB should eliminate its method. If investors indicate that the FASB’s method provides more useful information, that information should be shared with the IASB for a possible agenda decision. In addition, the SEC staff should consider the threshold that should be applied after this predetermined period in determining which standard is more appropriate to include in U.S. GAAP.

Further, we do not propose that the FASB and IASB continue to converge on the remaining inactive MoU projects. However, the projects were added to the MoU because of the importance and areas in which improvements could be made. Thus, the IASB should continue to be encouraged to address these projects after completion of the priority MoU projects.

In addition, we note that having a single set of high-quality, globally accepted accounting standards in isolation will not necessarily lead to increased consistency in financial reporting worldwide. This aim will be only achieved if the standards are enforced consistently at a global level. We acknowledge that the auditing profession has to play a role in that. However, we

³ We would consider the boards’ joint project on accounting for insurance contracts to be a priority project to be considered similar to the priority MoU projects.

believe that regulatory bodies tasked with enforcement of accounting standards across the globe must make similar efforts to work together to consistently apply these standards. Therefore, we believe it important for the SEC to increase its efforts to coordinate consultation and monitoring activities on the implementation and interpretation of IFRSs with other regulators around the world.

Specific Comments

Transition — Phased Versus Single Effective Date for U.S. Issuers

With respect to the statement in the Staff Paper that “a transition to IFRS may be most effective if it . . . is based on a phased transition plan at an individual standard level,” we encourage the FASB to study, and conduct outreach with U.S. constituents on, whether incorporation into U.S. GAAP of IFRSs subject to the MoU projects or on the IASB’s current standard-setting agenda and all existing IFRSs should (1) be phased in or (2) take place on a single effective date prior to drawing a conclusion on the most effective form of transition. We also recommend that the FASB consider whether it should provide an option to early adopt individual IFRSs when incorporated into U.S. GAAP. In deciding on the transition approach, the FASB should weigh the potential benefits of reduced costs and burden for preparers that a phased incorporation may provide against the disadvantages such a transition may entail. For example, the FASB should consider the following:

- Additional complexities (e.g., the FASB would have to ascertain that individual IFRSs could be applied in isolation — i.e., that the IFRS would not have any implications for other areas in U.S. GAAP).
- Effect on users with respect to comparability of financial statements of entities filing in the U.S. during the transition period.
- Potential for preparers and others to feel “transition fatigue” as a result of having to adopt individual IFRSs on a staggered basis over a prolonged transition period.

We recommend that U.S. public entities should be permitted to early adopt IFRSs as issued by the IASB. This would allow multinational companies that are most affected by the movement toward IFRSs globally to benefit from using a single financial reporting standard for both global and local reporting purposes. This also would improve the comparability among companies within industries that are more global in nature and help the Commission gain experience from U.S. issuers’ adoption of IFRSs. In addition, giving companies the option to voluntarily use IFRSs would allow the U.S. and global infrastructure to continue to develop and would facilitate investor education, auditor effectiveness, regulator enforcement, and the willingness of market participants to make judgments under IFRSs. We believe this knowledge sharing would benefit all constituents and facilitate a smoother transition to IFRSs for companies transitioning later.

As the FASB incorporates IFRSs into U.S. GAAP there may be differences in the application of specific U.S. GAAP standards and the corresponding IFRS as issued by the IASB. This may be the case where, for example, the FASB has provided supplemental implementation guidance to narrow diversity in application, or because the FASB has overridden an IFRS principle. If the SEC permits U.S. public entities the option to adopt IFRSs as issued by the IASB, it should consider whether and potentially how to address these differences between U.S. GAAP and IFRSs in financial statements of those entities that early adopted IFRSs. Alternatives could

include requiring these entities to apply the guidance provided by FASB or supplemental disclosure. If the Commission determines one of these alternatives or some other alternative is warranted in order to protect U.S. investors or narrow diversity among entities in the U.S. markets, it should strive to strike the right balance between U.S. investors' needs for comparable information and concerns about increased costs to U.S. issuers.

Transition — Prospective Versus Retrospective Application

The Staff Paper suggests that, whenever possible, IFRSs incorporated into U.S. GAAP should be applied prospectively to minimize the impact of transition for issuers. We agree that retrospective application of incorporated IFRSs may be costly and burdensome to preparers. However, we note that prospective application would result in similar transactions being accounted for, and reported, in financial statements prepared in accordance with U.S. GAAP differently depending on whether the transactions were entered into before or after the effective date of the IFRS incorporated into U.S. GAAP. Hence, the financial statements of entities transitioning to IFRS-based U.S. GAAP would be neither internally comparable nor comparable to those of entities reporting in accordance with IFRSs. We would therefore encourage the SEC and FASB to seek input from investors and others on which transition would provide the most useful information, considering the costs that such transition would impose on preparers.

The Staff Paper indicates that “at the end of the period [over which IFRSs would be incorporated into U.S. GAAP by using the transition approach described in the Staff Paper], the objective would be that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB.” We note that IFRS 1, *First-time Adoption of International Financial Reporting Standards*, generally requires entities applying IFRSs for the first time to retrospectively apply these standards. If issuers are to unequivocally state compliance with IFRSs, additional amendments to IFRS 1 would need to be sought to permit a prospective application in certain areas. Assuming the endorsement approach in the Staff Paper is implemented, we encourage the SEC and FASB to work with the IASB on how best to accommodate the needs of U.S. issuers in making the transition to IFRSs.

Transition Period

We agree that preparers and others will need a long enough transition period to become familiar with and implement IFRSs incorporated into U.S. GAAP. In addition, such a transition period should be flexible enough to allow issuers to transition effectively and cost-efficiently. We believe that a transition period of five to seven years is reasonable to meet the needs of issuers.

Modifications

In applying its due process procedures to determine whether to endorse IFRSs for incorporation into U.S. GAAP during and after the transition period, the FASB may determine that modifications to these IFRSs would be warranted before they are incorporated into the U.S. financial reporting framework. We agree with the SEC staff that the FASB should retain the authority to make these modifications, although we hope that the need to make them would rarely arise.

In the interest of a single set of high-quality, globally accepted accounting standards, we believe that the FASB's goal should be to incorporate IFRSs into U.S. GAAP without overriding the principles in those standards. In that regard, it should be presumed that the FASB would require that IFRSs as issued by the IASB be adopted for use in the United States unless it determines that doing so would not be in the best interest of the public or U.S. investors or there are legal or other barriers to U.S. issuers' application of an IFRS. We believe that the SEC and FASB, in consultation with the U.S. investor community and other stakeholders, should develop specific criteria for when overriding the principles in IFRSs would be "in the best interest of U.S. investors" and that these criteria should amount to a high hurdle. We also believe that the FASB should develop a process for making such decisions including steps such as discussion with other national standard setters to understand their perspectives and experiences. Outside of the rare circumstance where it is necessary to override an IFRS principle, we would expect modifications to be limited to (1) additional disclosures beyond those required by IFRSs (e.g., relevant information necessary for U.S. investors), (2) supplemental application guidance beyond that provided by IFRSs (but only if such additional guidance would be consistent with the recognition and measurement principles underlying the IFRSs), or (3) elimination of alternative accounting treatments available in IFRSs to ensure greater consistency in the application of IFRSs among U.S. GAAP preparers.

If the need to override the principles in an IFRS arises, the FASB should consider requiring public companies to disclose comparative information related to those modifications so that investors would be able to compare entities using U.S. GAAP with those applying IFRS as issued by the IASB. We believe that preparers should provide qualitative disclosures about the nature of these modifications sufficient for a financial statement user to understand the areas in which the US GAAP financial statements may be materially different from those prepared in accordance with IFRSs. In addition, we suggest that the SEC, through its role on the Monitoring Board and its participation in the International Organization of Securities Commissions, encourage other securities regulators to require similar disclosures in their jurisdictions to the extent that IFRSs as issued by the IASB are modified for local reporting purposes. We believe that these actions would ultimately improve the quality of financial reporting and foster the development of a single set of high-quality, globally accepted accounting standards. Shedding light on these situations may help prove or disprove the conclusion that any one approach is better and may ultimately influence the boards, possibly resulting in the reduction or elimination of differing approaches across jurisdictions.

When the FASB decides to override an IFRS principle, we would expect the SEC to actively oversee the FASB's decision. This active oversight helps ensure that instances in which the FASB decides to override an IFRS are rare and in the best interest of the U.S. public and investors. We believe that the SEC should have a defined, transparent process for evaluating the FASB's conclusions in this regard. We would expect that as part of this process, the SEC should consult with other regulators, as well as the investor community, to better understand the needs of global investors.

As with our recommendation for the due process to be applied by the FASB in transitioning to IFRSs, we would encourage the FASB to research (1) the circumstances under which modifications to IFRSs would be permissible or required in jurisdictions following an endorsement approach and (2) what types of modifications have been made in practice.

Foreign Private Issuers

To the extent that there are modifications to IFRSs as a result of the endorsement process we believe the SEC should consider what impact, if any, this would have on Foreign Private Issuers (FPIs), who currently can file financial statements prepared in accordance with IFRSs as issued by the IASB. We believe the Commission should assess the nature of those differences, including the extent to which they could have a material financial statement impact. The SEC would need to consider whether FPIs should be required to adopt IFRSs, as incorporated into U.S. GAAP, either at the end of, or over, the transition period. Alternatively, the SEC could continue to allow FPIs to prepare their financial statements in accordance with IFRSs as issued by the IASB and consider whether disclosures about any differences with U.S. GAAP should be made to ensure U.S. investors are receiving relevant financial information. A decision to require FPIs to use IFRSs, as incorporated into U.S. GAAP, to prepare their financial statements would seem inconsistent with the SEC's decision a few years ago to accept FPIs' IFRS financial statements without a reconciliation to U.S. GAAP. However, we acknowledge that this approach would result in lack of comparability between financial statements of FPIs and financial statements prepared by U.S. entities in accordance with IFRSs as incorporated into U.S. GAAP. Accordingly, we would suggest that the SEC further explore the approach used for FPIs.

Other

We believe that in implementing the endorsement approach, the SEC staff should consider or clarify the following issues:

- The Staff Paper acknowledges that “any changes in the role of the FASB [as a result of transitioning the financial reporting system for U.S. issuers to a system incorporating IFRSs] may have an impact on the accounting standards for privately-held companies” and notes that “[t]he FASB’s determination of whether, and to what extent, there should be modifications to its standards for privately-held companies is outside the scope of this Staff Paper.” We would encourage the FASB to conduct outreach to (1) determine whether it would need to modify IFRSs incorporated into U.S. GAAP to make them suitable for private entities and (2) ascertain the time and costs it would take these entities to transition to an IFRS-based U.S. GAAP. We hope that the FASB would provide for a transition approach that minimizes these transition costs as much as possible.
- What is expected of the FASB and IASB with respect to other MoU projects on hold (e.g., financial instruments with characteristics of equity, financial statement presentation, emission trading schemes, income taxes, earnings per share). For example, the SEC staff should ensure that the IASB remain committed to the project of improving the accounting for financial instruments with characteristics of equity. This is an area of bright lines where (1) economically similar instruments are accounted for differently, (2) significant issues in practice (both under U.S. GAAP and IFRSs) have been identified, and (3) the IASB and FASB have not yet been successful at developing a new classification and measurement model.

We appreciate the opportunity to comment on the Staff Paper. If you have any questions concerning our comments, please contact Robert Uhl at 203-761-3152 or William Platt at 203-761-3755.

Yours truly,

/s/ Deloitte & Touche LLP

Cc:

SEC

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