



August 17, 2011

American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036-8775

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

Re: File No. 4600 Commission Statement in Support of Convergence and Global Accounting Standards

Dear Ms. Murphy:

The American Institute of Certified Public Accountants (AICPA) is pleased to offer its comments on the Securities and Exchange Commission's May 26, 2011 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*. The AICPA is the world's largest association representing the accounting profession, with nearly 370,000 members in 128 countries. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting; membership is also available to accounting students and CPA candidates. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, and federal, state, and local governments. The AICPA also develops and grades the Uniform CPA Examination. The AICPA, through a recently announced joint venture with the Chartered Institute of Management Accountants of London with 183,000 members, will begin offering a new Chartered Global Management Accountant (CGMA) credential in 2012 to advance the professional practice of management accounting in the U.S. and worldwide.

We commend the SEC Staff for issuing the Staff Paper for public comment.

### **Objective of Endorsement Method**

The AICPA supports the goal of a single set of high quality, comprehensive financial reporting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world. We believe one common financial reporting language would benefit investors, as well as issuers and capital markets, because it would facilitate the comparison of reporting entities domiciled in different countries. We believe the standards issued by the International Accounting Standards Board (IASB) are best positioned to become those global standards. We, therefore, agree with the objective outlined in the Staff Paper that a U.S. issuer compliant with U.S. generally accepted accounting principles (GAAP) should also be able to represent that it is compliant with IFRS as issued by the IASB.

### **Option to Adopt IFRS**

Whether or not the SEC decides to incorporate IFRS into the U.S. financial reporting system through an endorsement/convergence approach, we believe U.S. issuers should be given the

option to adopt IFRS as issued by the IASB. An adoption option would provide a level of consistency in the treatment of U.S. companies and foreign private issuers that report under IFRS that does not exist today, and would facilitate the comparison of U.S. companies that elect IFRS with their non-U.S. competitors that use IFRS. Furthermore, giving U.S. companies an option to adopt IFRS as issued by the IASB would be another important step towards achieving the goal of incorporating IFRS into the U.S. financial reporting system. Anecdotal evidence suggests that the number of companies that would choose such an option would not be such that system-wide readiness would become an issue.

## **Endorsement**

We pragmatically accept the concept of an endorsement approach for the incorporation of IFRS into the U.S. financial reporting system and the retention of the Financial Accounting Standards Board (FASB) as the U.S. standard setter to facilitate the incorporation of IFRS into U.S. GAAP. We note, however, that there are practical challenges that could limit the effectiveness of the proposed methodology in achieving the SEC's objective. Those challenges and some possible solutions are noted below.

## **Practical Challenges**

The Staff Paper suggests that an endorsement approach would give the SEC and FASB the ability to modify or supplement IFRS, subject to an established protocol. This ability, if applied imprudently, will not result in dual (IFRS and U.S. GAAP) compliance. Furthermore, it could, and likely will, result in many differences from IFRS as compared with other developed nations. Accordingly, we suggest that the threshold for modifications to IFRS be set high so that, as stated in the Staff Paper, modifications would be a rare occurrence. We would be pleased to offer further thoughts to the Commission if and as it develops those protocols.

We support prospective application of the endorsed standards wherever possible, because prospective application would minimize the cost and effort to implement new requirements. We note, however, that prospective application is incompatible with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 generally requires retrospective application with certain specific exceptions and exemptions. Without modifications to IFRS 1, U.S. issuers would not be able to unequivocally state compliance with IFRS. Accordingly, we would encourage the SEC and its staff to work with the IASB to accommodate the needs of U.S. issuers in making the transition to IFRS.

## **Transition**

We have concerns about the endorsement process for IFRSs not subject to standard setting (the Category 3 standards). We believe that a long, drawn-out process of endorsing Category 3 standards one-by-one would be costly, disruptive, and create confusion for many constituents. For many companies, particularly smaller issuers, constant changes to accounting requirements over a period of several years would create considerable hardship. Accordingly, after completion of the MoU priority projects, we recommend an endorsement process that would



incorporate IFRSs not subject to standard setting into U.S. GAAP for public companies at one point in time, with a date certain for adoption.

We could envision under this approach that IFRSs subject to standard setting (Category 2) could be incorporated into U.S. GAAP at a later date, as the standards are issued by the IASB.

We also believe that, to the extent possible, FASB and IASB should work closely on the timing of new IFRSs to be issued during the U.S. transition in the interest of assuring an orderly transition in the U.S.

## **Regulatory Environment**

As stated previously in our response letters related to the incorporation of IFRS into the U.S. financial reporting system,<sup>1</sup> any transition to IFRS in the U.S. needs to be a comprehensive undertaking. If IFRS are to serve as a basis for U.S. issuers financial reporting, there must be changes in the auditing and regulatory environments. IFRS are less detailed than current U.S. GAAP, and they require more judgment in the application of accounting principles. Therefore, second-guessing of reasonable professional judgments of preparers and auditors would need to be minimized in order for IFRS to be viable in the U.S.

Further, we continue to encourage the Public Company Accounting Oversight Board to pursue a strategy that will achieve greater harmonization of its auditing standards with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

## **Role of FASB**

We agree that FASB should continue to have an active role in the international financial reporting arena to assist in the development of high-quality international financial reporting standards, to be proactive in identifying new and emerging financial reporting issues, and to ensure that U.S. interests are suitably addressed in the development of those standards. We also agree that the FASB should continue to be the body designated to promulgate U.S. GAAP for public companies.

We believe FASB's role should be focused on working with the IASB in the development of high-quality financial reporting standards and on developing authoritative implementation guidance and interpretations with the IASB. We are concerned that separate educational guidance issued by the FASB will be viewed as authoritative even though it is not intended to be authoritative. Any necessary implementation or interpretive guidance should be developed as

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<sup>1</sup> See our comment letter on the August 7, 2007 SEC *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards* ([http://www.aicpa.org/Advocacy/FinancialReporting/DownloadableDocuments/IFRS\\_Option\\_Comment\\_Letter\\_Final.pdf](http://www.aicpa.org/Advocacy/FinancialReporting/DownloadableDocuments/IFRS_Option_Comment_Letter_Final.pdf)) and our comment letter on the February 19, 2009 SEC Proposed Rule: *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* ([http://www.aicpa.org/Advocacy/FinancialReporting/DownloadableDocuments/SEC\\_IFRS\\_Roadmap\\_Ccomment\\_Letter\\_Final.pdf](http://www.aicpa.org/Advocacy/FinancialReporting/DownloadableDocuments/SEC_IFRS_Roadmap_Ccomment_Letter_Final.pdf)).

part of the standard setting activities with the IASB. The development of educational materials should not be a central mission of the FASB.

### **Privately Held Companies and Not-for-Profit Entities**

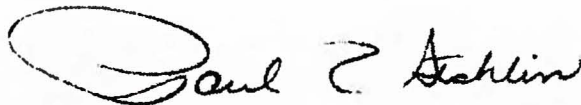
A central theme of the Staff Paper is the retention of U.S. GAAP and incorporation of IFRS into the Accounting Standards Codification through an endorsement process. The framework as outlined in the paper would directly affect U.S. GAAP for public and private entities, so this issue needs to be addressed. As it relates to private companies, we support the recommendations of the Blue Ribbon Panel on Private Company Financial Reporting for establishment of a separate board for developing exceptions and modifications to current U.S. GAAP for private companies. If a separate board was established, FASB could focus on the endorsement of IFRS into the U.S. financial reporting system for public companies in a more effective and efficient way.

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The AICPA appreciates the opportunity to submit its comments and would be pleased to discuss them with you at your convenience.

Sincerely,

AICPA

A handwritten signature in black ink, appearing to read "Paul V. Stahlin".

Paul V. Stahlin, CPA  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Barry C. Melancon".

Barry C. Melancon, CPA  
President and CEO