CENTER FOR CAPITAL MARKETS COMPETITIVENESS

TOM QUAADMAN
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September 18, 2012

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SEC Staff Paper (July 13, 2012) 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

Dear Ms. Murphy:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

To achieve these goals, the CCMC has been a strong advocate for a single set of global accounting standards and has supported efforts to improve standards and reduce complexity through the convergence of U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS"). The CCMC continues to support the creation of a single set of high quality global accounting standards.

The CCMC would like to commend the Securities and Exchange Commission ("SEC") and its staff for its hard work in this effort. The SEC has engaged in thoughtful outreach and deliberative contemplation of the issues, the benefits and the potential adverse consequences of adopting IFRS and the accounting convergence projects. As we have stated to the SEC, we believe that there are many issues that need to be considered and resolved before moving forward on an IFRS adoption including governance upgrades and reforms. Also, important issues to the American economy, including but not limited to LIFO accounting, litigation pressures, and contractual obligations must be thoroughly vetted and settled before moving forward.

Attached with this letter is a copy of a comment letter that the CCMC recently filed with the International Accounting Standards Board ("IASB") regarding due process issues and concerns. While the CCMC believes that orderly and transparent due process is critical for effective standards development and application, we believe that there are specific issues which the IASB should address before any expansion of American participation in the IFRS system.

We look forward to continuing to work with the SEC on the development and application of a single set of high quality global accounting standards and thank you for your consideration of our views.

Sincerely,

Tom Quaadman

CENTER FOR CAPITAL MARKETS
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September 4, 2012

Trustees
IFRS Foundation
30 Cannon Street
London, United Kingdom
EC4M 6XH

Re: Invitation to Comment on the IFRS Foundation Due Process Handbook (May 2012)

Dear IFRS Foundation Trustees:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. To achieve these goals, the CCMC supports the creation of a single global accounting standard and has supported the improvement of standards and reduction of complexity through the convergence of U.S. Generally Accepted Accounting Principles ("US GAAP") and International Financial Reporting Standards ("IFRS").

Strong and transparent due process is essential to the creation of effective financial reporting standards that are critical for efficient capital markets. While the CCMC is generally supportive of the due process procedures contained in the revised IFRS Foundation Due Process Handbook ("Handbook"), we believe that revisions and enhancements need to be made in order for the processes outlined in the Handbook to lead to orderly, transparent and effective standard setting. The CCMC recommends the following revisions to the Handbook:

- Formal Pre and Post Implementation Reviews;

- Materiality for Investors and Transparency for Investor Outreach;
- Auditing and Regulatory Coordination; and
- Cost Benefit Analysis.

The CCMC also believes national standard setting bodies and regional networks should not be used as filters to prevent participants from directly providing input to the IASB on proposed standards. Finally, overly restrictive re-exposure criteria and short comment periods will degrade due process and harm IASB standard setting.

Discussion

The CCMC appreciates the opportunity to comment on the Handbook which establishes due process principles that apply to the International Accounting Standards Board ("IASB"), the IFRS Interpretations Committee and the protocol followed by the IFRS Foundation Due Process Oversight Committee ("DPOC"). Much of the Handbook is consistent with the recommendations of the U.S. Securities and Exchange Commission ("SEC") Advisory Committee on Improvements to Financial Reporting ("CIFiR")[1] and views provided by the CCMC to the IASB on due process matters in the context of the convergence projects and financial reporting standard setting in general.[2]

However, the CCMC does have a few concerns on these and other matters, which are discussed in more detail below.

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[1] CIFiR's recommendations are contained in its Final Report issued on August 1, 2008.

[2] *See* the February 1, 2011 letter from the U.S. Chamber of Commerce CCMC to the FASB and IASB on the FASB Discussion Paper and the IASB Request for Views on *Effective Dates and Transition Methods* (FASB File Reference: No. 1890-100); see also testimony of Thomas Quaadman before the U.S. House of Representatives Subcommittee on Capital Markets and Government Sponsored Enterprises regarding *Accounting and Auditing Oversight: Pending Proposals and Emerging Issues Confronting Regulators, Standard Setters and the Economy*, March 28, 2012.

I. Due Process Recommendations and Enhancements

CIFiR examined the U.S. financial reporting system and made recommendations to increase the usefulness of financial information to investors, while reducing the complexity of the financial reporting system to investors, preparers, and auditors. CIFiR recommended reforms to accounting standards-setting development, governance process, the testing of real world implications of standards before they are implemented, as well as the effectiveness of accounting standards post-implementation.

Consistent with the CIFiR recommendations and as the CCMC has previously expressed, there needs to be a comprehensive and transparent system to test accounting standards in the development, implementation, and post-implementation stages. Such a system should act as an early warning to alert the IASB, regulators, investors, preparers and the business community to potential issues and give IASB an opportunity to resolve them.

It is important that the benefits are perceived to outweigh the costs before a standard setting project is undertaken; cost-benefit considerations should be embedded throughout the development of an IFRS standard not simply documented at the end of the process for inclusion in an exposure draft; and post adoption review of each standard, within a specified time period, should occur to identify and correct problems caused by unintended consequences and evaluate if a standard is achieving its intended purposes.

The CCMC appreciates that the Handbook reflects a commitment to these principles and includes a more extensive discussion of the process of assessing IFRS. The CCMC looks forward to the implementation of the Trustees recommendation for the establishment of a working group from the international community, chaired by the IASB, to develop an agreed methodology for fieldwork and effect analysis. In developing projects, IASB should enhance fieldwork including cost-benefit analysis, field visits, and pilot testing.

The proposed version of the Handbook explains that the IASB and its staff can use fieldwork to gain a better understanding of how a proposal is likely to affect those who use and apply IFRS. It also explains that fieldwork can take many forms.[3] However, the CCMC is concerned that the Handbook only provides the undertaking of fieldwork as a discretionary action. If the IASB decides not to do fieldwork, it must explain why on the project page and inform the DPOC.[4]

The CCMC strongly disagrees. It should be mandatory for the IASB to conduct fieldwork. Given the many different ways fieldwork can be undertaken and the many different factors that it can include, it seems impossible to imagine a circumstance where the IASB would not conduct any fieldwork. The CCMC believes that field work is necessary and has made the following proposals, which if implemented by the IASB and FASB, would lead to improved standard setting that is transparent with measures of accountability.

- **Formal Pre and Post Implementation Review:** Standards should be field tested and put through a rigorous process to identify unintended consequences before implementation and after. This process should include the following:

    1. Establish a 9 month period, following the finalization of the convergence projects, for FASB and IASB to work with all financial reporting stakeholders to identify transition issues and issue an implementation plan;

    2. Establish an Implementation Issuer Advisory Group, made up of large cap, mid cap, and small cap public companies and appropriate private company representation to advise FASB and IASB on the transition issues and implementation plan. This group should also be used by the IASB for non-convergence projects as well;

    3. Hold a series of roundtables, in conjunction with the appropriate regulators, for all stakeholders to have a voice in identifying issues for pre and post implementation processes;

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[3] IFRS Foundation Due Process Handbook, pars. 3.68 and 3.69
[4] Ibid, par. 3.70

4. Consult with appropriate financial regulators to identify and address issues before implementation; and

5. Develop a formal implementation and post-implementation.

- **Materiality for Investors and Transparency in Outreach:** Due process should consider standards of materiality for investors, as well as the scope of transparent outreach to the investor community. This will provide perspective on various accounting and auditing issues such as the need for restatements on the one end, while framing the picture for input on the front end of standard setting. Additionally, by providing transparency in outreach, participants will be able to understand if a representative cross section of investors has had input into standard setting and the investor interests the IASB is seeking to address.

- **Auditing and Regulatory Coordination**: A formal, ongoing, and transparent dialogue should be created to consider the auditability of accounting standards. This would allow for the auditing of accounting standards to work in conjunction with standard development. It would also provide for the identification and resolution of issues that arise in practice. A similar process should be created to ensure that regulators have an understanding of standards and that different entities are not working at cross purposes.

- **Cost Benefit Analysis**: The CCMC commends the IASB for being committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing associated costs and benefits of each new IFRS. However, in developing accounting standards, IASB must conduct a cost benefit analysis for investors and businesses before moving forward with a proposal. Standards should also show a justification for market efficiency and capital formation.

The CCMC believes that these enhancements are built upon the same rationale foundation of the Handbook and improve the ability of those processes to achieve better and more open standard setting.

II. National and Regional Accounting Standard-Setting Network

The CCMC understands that the Handbook no longer refers to the liaison roles that the IASB had with individual standard-setters. Instead, the Handbook is now broader and anticipates the likely steps that the IASB will take to develop a more formal network of standard-setters and others. However, this section is very general.

The CCMC appreciates that this area remains a work in progress. The Trustees have asked the IASB to develop plans by September 2012 to formalize and strengthen relationships with national and regional standard-setting bodies, audit and securities regulators, the accountancy profession and others, including those from emerging market economies, to cooperate more closely and in a more proactive way. These are all important relationships to have in place and operate with transparency.

However, the CCMC would like to emphasize that the inter-relationship between the IASB and standard-setters (i.e., the Financial Accounting Standards Board ("FASB")) and regulators in the United States are crucial to the SEC's decision on whether and how to allow U.S. companies to use IFRS in their filings with the SEC. An understanding of how this relationship would work should be an essential part of the plans that the IASB is developing. Furthermore, such interaction will more readily identify issues and spur efforts to resolve them.

While the CCMC believes that it is important for the IASB to have effective relationships and coordination with national standard setters, national standard setters and regional networks cannot act as a substitute for interested parties to provide direct feedback to the IASB in the standard setting process. Such an unfiltered process will provide for broad input and exchange of views that will allow the IASB to develop robust and well informed standards that will provide decision useful information to investors and all market participants.

Concerns Regarding Re-Exposure Criteria and Deadlines

The CCMC is concerned about several other matters, including those related to the re-exposure criteria, the proposed changes to comment periods, and outreach.

The re-exposure criteria do not include the situation where the IASB has made substantial revisions to the guidance initially proposed.[5] This would seem to be a typical circumstance for re-exposing a proposed IFRS as all stakeholders would not necessarily have had an opportunity to assess the new guidance and consider its impact for them.

One proposed change in comment period relates to a reduced comment period for documents the IASB plans to re-expose a proposal. The Handbook proposes that the DPOC can allow the IASB to have a minimum comment period of 60 days rather than the current 120-day comment period. The notion is that some re-exposure documents are intended to focus on a narrow aspect of an exposure draft, rather than being a fundamentally different document. While some period less than 120 days may be reasonable, a 60 day comment period is very short regardless of the scope of the issue. Many potential respondents have processes in place that require time to work through irrespective of the breadth or narrowness of the issue. The CCMC would recommend having at least a 90-day minimum comment period.

Further, the Handbook provides for comment periods of 30 days on an initial exposure draft (instead of a minimum period of 120 days) if the matter is narrow in scope and urgent.[6] Further, in exceptional circumstances and only after requesting and receiving formal approval from 75 per cent of the Trustees, the IASB may reduce the comment period to less than 30 days. Again, 30 days is a very short period, and the CCMC likewise recommends that it should be 90 days for an exposure draft, with the exceptional Trustee approval being required for less than 90 days.

While a crisis of impending and irreversible harm would warrant an accelerated comment period, such situations in financial reporting are extremely rare and such a power should be used sparingly with a showing of exigent circumstances requiring drastic action. Furthermore, for many potential commenters, a proposed IASB standard is not the only item they may need to comment on. Therefore, the CCMC believes that a minimum 90 day comment period should be the norm in order for the IASB to receive broad based and useful input.

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[5] Ibid, par. 6.25
[6] Ibid, par. 6.7

Finally, the Handbook describes additional steps that the IASB may undertake for outreach to investors, since "investors, and investment intermediaries such as analysts, tend to be under-represented as submitters of comment letters".[7] However, the Handbook does not require that the IASB identify the parties included in any such outreach. Consistent with the IFRS Foundation and IASB commitment to transparency (and consistent with the comment letter process where the identity of the commenter is known), the identities of the investors and investment intermediaries participating in any IASB outreach should be disclosed by the IASB.

III. Conclusion

Once again, the CCMC appreciates the opportunity to comment on the Handbook. The CCMC believes that effective financial reporting standard setting cannot be achieved without orderly and transparent due process. While we believe the proposed Handbook takes important steps in these areas, we believe that more needs to be done as outlined in the proposed enhancements. Also, processes that restrict participant input into the standard setting process, or use national or regional filters inhibit direct interaction with the IASB should be abandoned. Finally, overly restrictive re-exposure criteria and short comment periods are not conducive to the level of input and due process required for high quality global accounting standards.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman

[7] Ibid, par. 3.46