Grant Thornton

Paul Beswick, Acting Chief Accountant
Office of the Chief Accountant
U.S. Securities and Exchange Commission
100 F Street, NE
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October 31, 2012

Via www.sec.gov

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

Dear Mr. Beswick:

Grant Thornton LLP appreciates the opportunity to comment on the July 13, 2012 SEC Staff paper, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Final Staff Report*. We commend the Staff on its continuing thoughtful and comprehensive efforts under the Work Plan and, in particular, on the thoroughness and completeness of the Final Staff Report (Report). We believe the Report will be extremely helpful to the Commission as it deliberates whether, when, and how to incorporate IFRS into the U.S. financial reporting system. We are pleased that the Staff has completed its efforts on the Work Plan and are hopeful that the Commission will make a decision as early as possible upon completing its deliberations.

We continue to believe that the overarching goal for accounting and financial reporting is to have a single set of high quality, globally accepted accounting standards and that IFRS are best suited to be that set of standards. We further believe that the uncertainty in the financial reporting community created by the delay in making a decision on the use of IFRS for SEC registrants has been and will continue to be costly to preparers, users, investors, and others. We do not consider the challenges to IFRS adoption to be insurmountable, nor do we think every challenge must be addressed before deciding on adoption. Delaying a decision might also cause regulators, standard setters, and others in the financial reporting community in the United States to have less influence in the development and application of IFRS. There are benefits to a multi-year transition, especially if coupled with a voluntary option to adopt IFRS. Therefore, we hope the Commission will move quickly to make a decision. We elaborate further on these and other comments in the paragraphs below.

Uncertainty is costly

It is our belief that the uncertainty around whether and when the SEC will require the use of IFRS in the financial reports of U.S. issuers is costly to participants in the U.S. financial reporting process, including issuers, investors, analysts, auditors, educators, and others. These participants are anxious to learn when IFRS will arrive, what it will look like when it does, whether the transition will be smooth or difficult, and how prepared they will be to handle it.

For the past several years participants have been expecting a decision, but now they find themselves waiting, facing an open-ended delay. Not knowing the timing or extent of the possible change makes it difficult to justify devoting scarce resources to address the issue, especially amid the demands of a challenging economic environment. It is simply not practical to develop implementation plans and cost estimates for a conversion to IFRS that must factor in multiple scenarios for the timing and method of transition.

Delaying the decision on whether, when, and how to adopt IFRS is costly for U.S. issuers. For example, several multinational and other companies that currently use IFRS for some or all of their operations are burdened by the requirement to convert those operations from IFRS to U.S. GAAP for U.S. financial reporting purposes. Companies are planning for changes to their systems and controls as a result of significant new accounting standards that they expect to implement in the next few years, including those relating to revenue, leases, and other topics. In the absence of a coordinated decision or an option to use IFRS voluntarily, these companies may be facing multiple system changes—first for imminent and significant changes to U.S. GAAP and then for changes to convert to IFRS. Further, continued uncertainty has created a barrier to acceptance of IFRS reports from private companies. Privately held businesses in the United States, who would prefer—and are allowed—to convert to IFRS, have not done so because their local capital providers are unfamiliar with IFRS and are therefore unwilling to accept stand-alone IFRS reports.

Similarly, delaying the decision is costly to other participants. Investors and analysts that want to compare companies across jurisdictions using different accounting standards already experience difficulty in doing so. Once they understand the differences between the standards, they must then spend time making adjustments to reported results to facilitate their analysis. U.S. investors may have fewer choices of companies in which they are comfortable investing, due to their unfamiliarity with IFRS reports. Investors and other participants who do not have access to guidance to understand the financial statements can hardly reap the benefits of one set of accounting standards. Auditors and educators, however, may be reluctant to develop training programs or written guidance before that training can be reinforced through actual hands-on use.

No need for perfection

Although the extensive work of the Staff has identified the issues and challenges associated with the adoption of IFRS in the United States, we do not consider any of these to be insurmountable. And not every challenge must be addressed before making a decision whether to adopt IFRS or even before adoption. We agree with the Staff that the status of the Major Joint Projects remains a factor to consider, but we don't think that this should delay a decision on IFRS. Other significant jurisdictions, such as the countries in the European Union and more recently Canada, were able to meet numerous challenges in the relatively short periods during which they converted to IFRS. Individual companies that we have worked with that converted from U.S. GAAP to IFRS have all done so successfully, overcoming their own unique challenges. For many years individual companies have dealt with changes to U.S. GAAP, some small but some significant, and will continue to do so. Issues that the Staff has identified, that can be resolved without the need for published regulatory guidance, do not warrant further analysis. Some issues may be resolved through additional disclosures or increased interpretation, e.g., from a more active IFRS Interpretations Committee. Moreover, the Staff notes that several areas likely would be unaffected by a move to IFRS, including the ability of issuers to pay dividends, the ability of auditors to perform audits under PCAOB standards, and the ability of corporate boards to meet their governance responsibilities (i.e., the financial expert and literacy requirements). The Staff further notes that investors view IFRS as an improvement in comparability, despite their belief that jurisdictional differences are likely to persist even after IFRS adoption.

Some participants have suggested that rather than adopting IFRS, the U.S. market would be better served by continuing with a convergence strategy by the IASB and FASB. We do not share that view. Convergence only goes so far, and convergence takes a long time. Although convergence to date has been beneficial in improving accounting standards both in IFRS and U.S. GAAP, several differences continue to exist for some projects, such as business combinations, share-based compensation, and earnings per share. We hear suggestions from the Staff and others that perhaps full convergence is not needed, that some lesser level of agreement—one that may even be characterized in percentage terms—might be acceptable. In addition, taking IFRS/U.S. GAAP convergence off the front burner would make the likelihood of timely completion of a convergence strategy even more remote. After 10 years of convergence since the 2002 Norwalk Agreement, the IFRS Foundation has indicated the need to refocus the priorities of the IASB. Because accounting standards necessarily change at times to address different needs in a dynamic environment, the Boards must devote attention to maintaining and improving existing standards to ensure their continued relevance.

We expect that companies and other participants will quickly shift from an attitude of reluctance to a focus on successful implementation once a decision is made on IFRS. We appreciate that a challenging economic environment over the past few years has reduced the desirability of conversion to IFRS for many participants in the United States. The financial crisis necessarily shifted the priorities of regulators and other participants away from IFRS. In particular, many smaller companies, who may not have perceived as much direct benefit from converting to IFRS, did not have extra resources available to analyze and understand the potential impact of IFRS. Participants who felt reluctant to initiate a change to IFRS on top of the more immediate challenges they faced might feel differently in the improving economic environment.

Maintaining U.S. influence

As the IFRS Application Paper makes clear, there is diversity in the application of IFRS globally. Diversity in application reduces comparability, which mitigates some of the benefits of having one set of global accounting standards. Diversity can result from intentional or unintentional noncompliance with the standards. Diversity can result from the standards themselves, such as when there are optional accounting treatments or a lack of guidance. Diversity can result even when the requirements are exactly (or nearly) the same, due to differing interpretations or application to specific circumstances. Diversity from jurisdictional variations exists, in part because of the tendency to carry over previous local accounting when applying IFRS and in part because of specific local interpretations. There is even the consideration that if IFRS were incorporated into U.S. GAAP, it would have to be supplemented or even modified to ensure adequate quality of accounting standards in the United States, which could result in our own jurisdictional variation. In that case, local interpretations would promote comparability here at the expense of comparability on a global level.

There are other factors that impact comparability, such as auditing and enforcement. We agree that the audit firms could do more to foster consistent application of IFRS, but would not expect to see additional progress in that area until a decision on IFRS is made by the SEC. An active regulatory review program, coupled with a strong enforcement capability, may do more to drive consistent application than the quality of the standards or their interpretations. Here, the SEC is the gold standard. If, as footnote 75 of the Report indicates, "regulation and enforcement of standards determine the quality of a country's financial reporting at least as strongly as the quality of the accounting standards utilized," then eliminating the SEC's review and enforcement of IFRS would be a significant blow to improving the application of IFRS not just in the United States, but around the world. IFRS would begin to diverge from U.S. GAAP, not just in the way the standards are written, but how they are applied. The SEC's review of IFRS filings in the United States would improve the quality and consistency of the reporting by U.S. issuers, which would affect application in other parts of the world. In the absence of SEC involvement, the potential for local variations to take hold and become entrenched would increase. What's more, with the SEC out of the picture, a constraint on political forces influencing the IASB may be lessened. On the other hand, to the extent that the SEC is able to coordinate with other regulators, the benefits from consistent application would be enhanced. We applaud the Staff for stating its commitment "to working with the IASB, other securities regulators around the world, and the accounting profession to improve consistency in the application and enforcement of IFRS on a global basis."

There are some indications that in the event IFRS are not selected for use in the U.S. domestic market, the influence of the SEC, the FASB, and perhaps others on the oversight and development of IFRS would be reduced or eliminated. For example, the Monitoring Board's Final Report rejected suggestions that IASB membership should be limited to individuals from jurisdictions that use IFRS. It did not, however, reject the idea to require domestic use of IFRS as a condition for membership on the Monitoring Board itself. While not yet defined, the domestic use of IFRS requirement would be assessed in early 2013, which could be prior to any SEC determination on IFRS use in the United States. As the Staff noted in the Work Plan, effective oversight of the IASB is critical to incorporating IFRS in the United States, so we could find ourselves in an unnecessary "Catch 22." We must be represented on the Monitoring Board for effective oversight of IFRS, but we can't participate on the Monitoring Board without first deciding to use IFRS.

We agree with those users who believe that the continued effectiveness of the Boards working together under the current structure is cause for concern. We believe that the FASB, through its role in developing new accounting standards, is a critical element in ensuring the SEC's mission of protecting investors, maintaining fair, orderly, and efficient capital markets, and facilitating capital formation in the United States. Reducing the influence of the FASB on IFRS development is not in the best interests of U.S. investors and other participants. The Report notes that investors don't want to sacrifice the quality of accounting standards in order to achieve one uniform set of standards, and believe the FASB acting as an endorser would help to ensure sufficient quality of the standards used in the United States.

Transition and optionality

We agree with the Report that a transition to IFRS would take some time, although given the diversity of the participants, there may be wide variability in the exact amount of time people believe is necessary to implement IFRS. Commenters on the 2011 May Staff Paper both agreed and disagreed with the proposed five- to seven-year timeframe. The two main reasons for having an extended transition to IFRS are to reduce the cost and to allow adequate time to prepare for change.

For all participants and especially issuers, converting to IFRS will be resource-intensive and costly. The Report notes that extending the timeframe for IFRS adoption could lessen the total cost of conversion. Commenters noted that they would expect cost savings from a more gradual development of systems and processes they need to implement IFRS.

Extending the timeframe also allows adequate time to prepare for conversion. U.S. investors' and others' current knowledge of IFRS varies. A longer transition would provide sufficient time for them to assimilate IFRS. Because smaller investors and other participants might not have as many resources as larger ones, they likely would benefit from additional preparation time. In addition to developing human capital, issuers would need to develop systems and controls, all of which takes time. Issuers would also need to review all their contracts, and a multi-year transition allows some of that review to take place in periods when the contract is normally renewed.

We believe that some of the benefits of an extended transition can also be realized by allowing for the optional use of IFRS by U.S. issuers. An option to use IFRS would benefit large issuers, but might benefit smaller issuers even more, which is important because commenters said the transition to IFRS would be a greater burden on smaller issuers. Larger issuers, and some smaller ones, are already incurring the cost of maintaining two sets of books if, for example, they have subsidiaries reporting under IFRS. Because both U.S. GAAP and IFRS are expected to continuously change in the future, a long transition period raises the real possibility of having to perform multiple transitions—first to address changes to U.S. GAAP and then to adopt IFRS—all of which is costly. Timing a transition to IFRS concurrent with adoption of major U.S. GAAP changes would be a benefit for companies, if the option exists. Because a transition to IFRS involves similar processes for large issuers and small issuers, small issuers would benefit from lessons learned by the larger issuers who adopt IFRS voluntarily, similar to the benefit that would be expected from a phased transition by size. Skilled human capital, which might need to be obtained from outside the company (e.g., consultants and auditors) would be more readily available if more companies had already converted. Those specialists would have obtained IFRS knowledge from working with early adopters. The supply of outside resources that have assimilated IFRS and learned from the problems of the early volunteers would be greater, and there would be reduced demand as more companies would have completed their conversion. Optionality would ultimately act both to constrain costs and to make it easier to meet the demands of the follow-on smaller issuers.

One set of high quality, globally accepted accounting standards

We continue to believe that the overarching goal for accounting and financial reporting is to have a single set of high quality, globally accepted accounting standards. As IASB Chairman Hans Hoogervorst has noted, "[i]f you do not have a single language, international consistency in financial reporting will always remain an illusion." We are pleased to see that the goal of uniform global standards is supported by investors and other financial statement users. We agree that there are significant benefits to having a single set of standards as noted in the Report, including facilitating greater deployment and effectiveness of capital, facilitating comparison of entities across jurisdictions, and providing a consistent framework for financial reporting disclosures. To be effective, the standards must also be considered high quality. They must provide relevant and accurate information to investors and other users, without excessive cost to preparers. The Report notes that several investors believe that the set of standards best positioned to become the single set of high quality, globally accepted accounting standards is IFRS, and that the global financial reporting community perceives IFRS to be high quality standards. We agree.

We believe the Report will be extremely useful in future Commission deliberations on whether, when, and how to incorporate IFRS into the U.S. financial reporting system. We recognize that there may be changes in the makeup of the Commission after the November 2012 election, but once the reconstituted Commission has had time to consider adopting IFRS, we would hope the Commissioners would move quickly to make a decision.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Gary Illiano at 213.596.6730 or gary.illiano@us.gt.com.

Sincerely,

Grant Thornton LLP