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Mr. Kroeker,

I commend the Office of the Chief Accountant on the thinking underlying its staff paper, "Exploring a Possible Method of Incorporation." Assuming that the transition of U.S. GAAP to IFRS is a good idea, reducing the number of transition methods to the fewest possible routes results in only two:

• Scrap existing GAAP, and adopt all of it in the U.S. at a certain date.

• Take a reasoned, transitional approach with plenty of thought given to all possible permutations, and make it happen - regardless of what kind of name is attached to it.

A total flip-the-switch transition, even with a certain date long into the future, would be unworkable for all but the giant multinational firms already using IFRS in other parts of the world. Most firms simply would not have the resources to do this.

The condorsement approach is very much the second approach: at its core, it calls for the categorization of existing U.S. GAAP standards and finding the most efficient way of replacing them with IFRS. There's no "one-size fits all" solution prescribed in the staff paper. The changeover to a different standard, or group of standards, wouldn't be the application of brute force to shove a standard into the U.S. framework without considering the best way to do it. The staff paper is clear: the condorsement approach seeks the smoothest transition for any IFRS being integrated into the U.S. GAAP framework - and that matters a great deal to U.S. investors and financial statement preparers.

<u>The condorsement proposal is not flawless - and some facets of it, frankly, should worry investors.</u> The primary purpose of financial statements is to inform potential and current investors of a firm's financial situation. Serious defects in that investor information may develop from the transition of GAAP to IFRS. The SEC has frequently referred to itself as "the investor's advocate" - so hopefully, it will address the entire issue of IFRS convergence with these constituents in mind. The worrisome aspects of the staff paper are enumerated below.

1. A recurring theme of the staff paper:prospective transition should be used whenever possible. Prospective transition can make the simplest analysis impossible for investors and analysts. It plays havoc with time-series data because it introduces non-comparable information into a data set. For instance, comparing revenues from one year to the next is a routine analytical comparison, but it's rendered meaningless if the current year's revenue figures are prepared on a different accounting basis than the previous year's revenue figures; any inference about the firm's performance is neutralized by the lack of a common accounting basis. Rarely are investors and analysts provided with sufficient information to even out non-comparable information arising from the prospective method of implementing new accounting principles.

Companies prefer the prospective method because of its simplicity, its relative lower cost compared to a retrospective implementation, and the ease of application. While the Commission will probably hear from many firms in support of the prospective method, it should temper that support by recognizing who is most affected by such a second-tier solution: the investors, for whom the Commission advocates.

2. The staff paper suggests early adoption by certain issuers might be considered by the Commission. Again, the issue of comparability is at hand. With some companies using one basis of accounting, and some companies on another basis of accounting, Babel-like assessments of firms' performance and prospects would abound. Some analysts and investors might believe they can actually make adjustments that would keep things on an even keel - but they are probably unrealistic about what they can achieve.

3. Exactly what benefits will condorsement bring to U.S. investors? Consider the paper's illustration of how Category 3 IFRSs might be incorporated into the U.S. framework. It uses the example of property, plant and equipment standards, and mentions that the U.S. standards contain a "a variety of industry and other supplemental guidance associated with ASC 360 (e.g., ASC 908-360, *Airlines,* and ASC 980-360, *Regulated Operations*). The FASB would evaluate this guidance, and as described earlier may *eliminate the guidance, or modify or retain it on a temporary or permanent basis*, depending in each case on the outcome of its detailed assessment."

The example makes one wonder about the worth of the whole IFRS project. If the condorsement process eliminates standards developed over the years for specialized industries because a generalized standard is viewed as better, that's like turning back the clock to the time *before* those standards existed. Specialized accounting standards develop for a reason, usually because generalized accounting standards aren't sufficient. As the excerpt above indicates, the specialized guidance/standards *could* remain in the U.S. framework after the FASB/SEC review, ostensibly because they do a better job of informing investors than IFRS. If they remained, however, another issue is raised: wouldn't the evolved framework look a lot like a U.S. version of IFRS - a nationalized version, at that? That's one of the things that the Commission probably wants to avoid.

It's a delicate balancing act - maybe even an impossible one - to try looking like you're a team player with the rest of the world in developing similar accounting standards, while ensuring that such standards will bring U.S. investors the level of information to which they've become accustomed.

4. A concern not directly raised in the paper: is there a legal contradiction in using IFRS in the United States while funding the FASB as required by the Sarbanes-Oxley Act? Section 108(b)1(A)iii of the Act requires that an accounting standard-setter be funded by the SEC, as described in Section 109 of the Act. The role of the FASB, as described in the condorsement staff paper, can be fairly described as a mere tool of the IASB. It also might be described as a "backup generator": in the event of a collapse of the IASB, whether political, fiscal, or otherwise, there would still be a mechanism for issuing accounting standards in the United States.

Nevertheless, the paper outlines a "tool" scenario where the IASB sets new accounting standards, while the FASB's duty is to present a U.S. view. The FASB might well provide most of the staff for developing standards, using funds awarded by the SEC. Is this really what's contemplated by the Sarbanes-Oxley Act - or is it a fig leaf to keep the funding flowing to the FASB and help keep the IASB financially viable? The condorsement proposal does not dispel these questions.

In fact, the staff paper refers frequently to "incorporation of IFRS into U.S. GAAP." The United States won't be a pure, as-published-by-IASB adopter of IFRS. It will be developing its own nationally-tinged version of IFRS, a particular "brand" of IFRS with a particular label attached to assure continued funding for the two standard-setters. If American taxpayers are funding the FASB as required by American laws, and it becomes construed as a subsidy to foreign standard-setters, then there may be political repercussions for the Commission. The situation is analogous to the emergency funding to domestic financial institutions during the financial crisis which ultimately benefitted foreign institutions.

5. If the FASB is barred from starting projects independently of the IASB, how are American investors best served? There could be financial reporting issues that are unique to our country, that would never be addressed by the IASB - simply because they are not a problem in the rest of the world.

An example may help make the point. In the United States, many investors and other stakeholders who rely on general purpose financial statements are troubled by what they consider to be excessive executive compensation. There is only a limited amount of information available annually regarding executive compensation. More comprehensive information about *all* of a firm's human capital costs (not just executives' compensation), directly displayed in financial statements on a quarterly basis, would be useful for investors to help them assess the value of pay packages on which they vote annually. Currently, there's only minimal information about equity compensation available for investors to assess in financial statements. In the proxy, there's an overabundance of information about five employees' pay. There's no cohesive model or set of disclosures for reporting pay information. What gets measured, gets managed - and since there's not much reporting of pay information to investors, it's likely not to be managed too well.

It's a uniquely American problem, not shared elsewhere in the world. The FASB should undertake a project for improving investor information in this area - but it would be barred from doing so under condorsement, unless the IASB deemed it necessary. That's not likely to happen unless it became a problem elsewhere in the world. Is it fair to ask American investors to wait until an American issue that may be resolved by better accounting and disclosure is a problem in the rest of the world? In a word: No.

Other questions, unanswered by this paper - and worth asking as the SEC moves towards a possible decision on convergence later this year:

• If the U.S. goes through with this and comes up with a version that's not pure IFRS, and not like the EU's version (which is very close to pure IFRS, for now), then how "global" are such accounting standards anyway? Those two blocs alone constitute over 52% of the world's stock market capitalization. One initial premise for U.S. adoption of IFRS was that the world would be on one standard. Even if the United States was using the EU's version of IFRS, nearly half the world would *still* be on another basis of IFRS.

The goal of one set of standards in the whole world is unrealistic, even in the best of circumstances. This is hard to accept as something that's actually happening: by my estimates, less than 16% of the world's markets are on a "pure IFRS as published by the IASB" basis. It does not seem likely to move much further in this direction, either.

• Without one *truly* global set of standards, is this worth the effort? The IASB has always promoted its standards with a "tastes great, less filling" attitude: fewer rules, more principles, more comparability. Never mind that it's a contradiction that fewer rules will increase comparability. There might be a migration toward more similar results - but there's no assurance that comparability will result, nor is there any assurance that auditors will consistently control the application of similar principles.

• Why is this perceived as necessary mop-up action after the financial crisis? The G-20 started pushing for more global convergence of accounting standards, after the crisis - yet no study (at least, none of which this writer is aware) laid any blame for the financial crisis on U.S. - or any other - accounting standards. Apparently, the G-20's suggestions have been taken very seriously in Washington, without any evidence that it caused the financial system breakdown nor any evidence that it would prevent another one.

• Why are investors better served by a system that will compromise the SEC's authority? The move to IFRS will dilute the SEC's ability to directly - and *quickly* - influence standard setting in the United States. That's partly because they'll be sitting at a larger table and their voice will be diminished when it comes to normal standard-setting projects. When something needs attention right away, something like Emerging Issues Task Force agenda items[1], or flimsy interpretations of GAAP (like the bloated acquired R&D being treated as an immediate expense by a wave of acquirers in the mid-to-late 1990's), the SEC needs to react quickly and interact with standard-setters here. Investors will depend on the SEC to act decisively - but it may be too paralyzed by concern over making its own standards that don't match up with the rest of the world's standards.

• A final question: if the FASB and the SEC are spending every working moment on convergence - as they certainly seem to be - what problems are going unaddressed? U.S. financial reporting can certainly be improved in many areas: the afore-mentioned compensation issues, disclosures surrounding untaxed foreign income, anomalous reporting of health care benefit costs, and pension discount rate issues, to name a few examples of avenues of investigation for the SEC, or perhaps standards improvement for the FASB. The problem is that neither the FASB or the SEC seem to be working on anything else but convergence.

There may be other projects worth their effort, but they're not doing much of anything except putting the U.S. on the path to global accounting nirvana - whether investors want it or not.

Those are my thoughts on the condorsement staff paper, and on the IFRS convergence project as well. Please do not hesitate to contact me if you have any questions. Best regards.

Sincerely,

Jack Ciesielski
[redacted]

[1] For one example, during the internet boom of the late 1990's and early 2000's, the EITF and the SEC worked feverishly to plug the gaps in GAAP being exploited by the internet firms.