July 28, 2011

Mr. James Kroeker
Chief Accountant
Office of the Chief Accountant
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SEC Staff Paper (May 26, 2011) 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 Mr. Kroeker:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of nine trade organizations—American Council of Life Insurers, CRE Finance Council, Council of Federal Home Loan Banks, National Association of Real Estate Investment Trusts, Group of North American Insurance Enterprises, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable, and The U.S. Chamber of Commerce—representing all sectors of the economy and areas of the financial services arena in the United States and around the world. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally. Businesses are both preparers and users of financial reporting for investment, managerial, and competitive reasons.

FIRCA has supported a single set of global accounting standards and has backed 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"). FIRCA appreciates the opportunity to comment on the Securities and Exchange Commission ("SEC") May 26, 2011 Staff Paper ("Staff Paper") as part of the Commission's deliberative approach to determining whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating IFRS.

Several overarching themes form the basis of the Staff Paper, including that:

- U.S. GAAP would be retained but the Financial Accounting Standards Board ("FASB") would incorporate IFRS over a defined period of time to minimize transition costs;

- FASB would incorporate future changes in IFRS into U.S. GAAP pursuant to an established endorsement protocol, which could entail the FASB determining whether the International Accounting Standards Board's (IASB) issuance of a new standard or amendment of an existing standard met a pre-established threshold – for example, a threshold that incorporates the consideration of the public interest and the protection of investors;

- The endorsement protocol would allow FASB to modify or supplement IFRS if it failed to reach the pre-established threshold,[1] although modifications are contemplated to be rare, generally avoidable, and reflect unusual circumstances;

- FASB would inform IASB when supplemental or interpretive guidance is needed for the benefit of U.S. constituents and, if FASB subsequently determined IASB failed to provide an acceptable solution in a timeframe consistent with the needs of the U.S. capital markets, FASB could address the circumstances with additional disclosure, by prescribing a particular accounting treatment from among IFRS alternatives, or by setting requirements compatible with IFRS;

- The SEC would maintain its oversight of FASB as the designated U.S. standard-setter and the SEC would be actively engaged in the standard-setting process and with the broader activities of the IASB and its governance bodies, but the SEC would have less direct oversight relationship with the IASB.

[1] The Staff Paper does not propose more specific criteria for doing so. Based on discussions at the SEC IFRS Roundtable on July 7, 2011, FASB is particularly interested in better understanding what these criteria might be.

- The SEC should undertake a cost-benefit analysis before moving forward on convergence to insure that the benefits to users of financial statements will exceed the costs of convergence to preparers of financial statements.

FIRCA appreciates the intent of the Staff Paper to focus on minimizing transition costs, particularly for smaller issuers. Many of the companies represented by FIRCA organizations do not have any international operations and anticipate incurring only costs, and no benefits, in having to move their reporting to IFRS. Thus, it is important that any transition process to IFRS be designed to mitigate the costs, especially for smaller companies and those without international operations, to the maximum extent possible.

The Staff Paper goes on to outline one approach to an endorsement process in order to substantially align U.S. GAAP with IFRS and maintain that alignment going forward. However, there are currently so many "moving parts" related to the standard-setting activities of the FASB and IASB that it is difficult to make a definitive assessment of the process described in the Staff Paper. Nonetheless, FIRCA would like to express some concerns about certain aspects of the Staff Paper.

Role of the FASB

Consistent with prior statements by the Commission, the Staff Paper retains the FASB as the U.S. standard-setter. However, the role of FASB is contemplated to considerably differ from its current role. Essentially, FASB "would participate in the process for developing IFRS, rather than serving as the principal body responsible for developing new accounting standards or modifying existing standards under U.S. GAAP" (p. 8). According to the Staff Paper:

> *The FASB would play an instrumental role in global standard setting by providing input and support to the IASB in developing and promoting high-quality, globally accepted standards; by advancing the consideration of U.S. perspectives in those standards; and by incorporating those standards, by way of an endorsement process, into U.S. GAAP. Additionally, the FASB would become an educational resource for U.S. constituents to facilitate the understanding and proper application of IFRS and promote ongoing improvement in the quality of financial reporting in the United States* (p. 8).

The Staff Paper goes on to list a number of ways that FASB participation in the IASB standard-setting process could occur. In reviewing this list (p. 9), FIRCA is concerned about the lack of formal mechanisms by which the FASB would have a voice in the activities of the IASB. Indeed, the Staff Paper seems to recognize the lack of formal mechanisms by stating that the FASB would "represent U.S. interests broadly in the standard-setting process, by participating in the standard-setting effort and sharing its views with the IASB both informally and likely also through written comment letters" (p. 13) (emphasis added).

The FASB needs to have an elevated role to assure a strong voice in global standard-setting. Formal mechanisms need to be in place within the IASB structure to ensure this occurs. The IFRS Constitution recognizes the importance of national standard-setters and provides for the IASB to have mechanisms for giving national standard-setters a voice. For example, the IFRS Constitution states: "The IASB will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters, other standard-setters, and other official bodies with an interest in accounting standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and IFRSs" (par. 28).

Recent events reinforce the need for formal mechanisms to assure a strong voice for the FASB. For example, on June 24, 2011, the Trustees of the IFRS Foundation announced some modifications in the IFRS Advisory Council. The IFRS Advisory Council is formally recognized by the IFRS Constitution as the body for giving advice to the IASB on agenda decisions and priorities in the IASB work, informing the IASB of the views of the organizations and individuals on the Advisory Council on major standard-setting projects, and giving other advice to the IASB or the Trustees. The modifications for the IFRS Advisory Council include inviting regional standard-setting bodies to join the Council instead of national standard-setters. While the Trustees characterized this as a minor modification, it would result in the FASB not even having a seat at the Advisory Council table. With this change, it appears that the IASB would have no formal mechanism in place to provide the FASB with a meaningful voice on IFRS.

Aligning U.S. GAAP with IFRS

In describing an approach to aligning extant U.S. GAAP and IFRS, the Staff Paper classifies the FASB and IASB convergence projects as Category 1 and the other standards in U.S. GAAP as either Category 2 (those encompassed by the IASB's ongoing and anticipated standard-setting activities) or Category 3 (all others). Needless to say, the convergence projects are a critical step in the advancement towards substantially aligning U.S. GAAP and IFRS. However, most of the convergence projects are in process and many difficult issues remain to be resolved. The Staff Paper assumes that U.S. GAAP and IFRS will coincide in the areas subject to the MoU[2] at the conclusion of the projects. At this stage, it is not obvious that this will be so.

Thus, an important assumption made in the Staff Paper appears to be problematic. And, to the extent the FASB and IASB do not have unified standards on the convergence projects, it would vastly complicate transitioning U.S. reporting to IFRS. Moreover, it would raise questions about the viability of the FASB working with the IASB in the future to resolve their differences prior to the promulgation of IASB standards. Therefore, it would undermine another assumption in the Staff Paper that modifications in IFRS would be rare under any FASB endorsement process.

In this regard, FIRCA would like to reiterate a point, as previously stated in comment letters supporting efforts to improve standards and reduce complexity through the convergence of U.S. GAAP and IFRS.[3] Quick-fixes to converge U.S. GAAP and IFRS do not serve the interests of investors and other financial statement users. Convergence for convergence sake is not an appropriate goal or outcome. The interests of all stakeholders are best served by the promulgation of accounting standards that will serve the test of time.

In addition, the convergence projects are just the "tip of the iceberg" for mitigating substantial differences in the content of existing U.S. GAAP and IFRS. The Staff Paper does not specify what Categories 2 and 3 contain, so it is difficult to

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[2] The MoU projects consist of those on financial instruments, revenue recognition, leases, the presentation of other comprehensive income, fair value measurement, balance sheet netting of derivative and other financial instruments, and the consolidation of investment companies.

[3] For example, see the March 25, 2011 letter from FIRCA to the FASB (IASB) on *Discussion Paper* (*Request for Views*) on *Effective Dates and Transition Methods* (FASB File Reference No. 1890-100.

assess any endorsement approach, including the approach outlined in the Staff Paper. In particular, much of existing U.S. GAAP is likely in Category 3, including industry-specific guidance, some of which has no corresponding guidance in IFRS.

Thus, FIRCA recommends that the SEC work with the FASB and IASB to catalogue U.S. GAAP, in Categories 1 and 2, specify how U.S. guidance in each Category differs from IFRS (including where IFRS has no guidance), and identify areas in IFRS with no corresponding guidance in U.S. GAAP. In addition, the SEC Work Plan should provide clarity around whether and how the FASB (IASB) will address and resolve the differences on a priority basis. Essentially, what is needed is a new MoU with project plans and priorities that cover the entire body of both GAAP and IFRS.

One source of difference between U.S. GAAP and IFRS is interpretative guidance, of which IFRS has little. The Staff Paper contemplates that the FASB would first work through the IASB for supplemental or interpretative guidance and that FASB "modifications [to IFRS] should be rare and generally avoidable" (p. 10). However, the Staff Paper fails to acknowledge that the IASB and the IASB Interpretations Committee have been reluctant to issue interpretative guidance and this situation needs to be rectified in order to adequately address financial reporting issues in the U.S and make workable any FASB process for endorsing IFRS.

The Staff Paper suggests that additional disclosure requirements might be one FASB response if an acceptable solution is not reached or the issue needing interpretive guidance is not being timely addressed by the IASB. However, disclosure is not the answer to overcoming problematic accounting or the limitations of IFRS for U.S. issuers.

Relatedly, FIRCA is concerned that the Staff Paper does not sufficiently address the likelihood for unique financial reporting issues to emerge in the U.S. market. The U.S. has been a market leader in areas such as financial services and the development of financial and derivative instrument products and markets. Many accounting issues first emerge in the U.S. markets and, at least initially, may be confined to the U.S. market. In addition, legislative and regulatory changes in the U.S. often trigger accounting issues unique to the U.S. FASB is in the best position to recognize and address these issues and the process contemplated in the Staff Paper appears problematic for doing so.

In addition, in the U.S., the FASB's Emerging Issues Task Force (EITF) plays an important role in anticipating, identifying, and facilitating the process to timely address emerging issues. However, in spite of its demonstrated effectiveness, the Staff Paper does not appear to contemplate the continuance of the EITF. Further, the process described in the Staff Paper between the FASB and IASB (or the IASB Interpretations Committee) is not likely to be adequate to address emerging issues in a timely way.

Concluding Remarks

In conclusion, FIRCA appreciates the opportunity to comment on the Staff Paper. Thank you for your consideration and FIRCA stands ready to assist in these efforts.

Sincerely,

American Council of Life Insurers
Council of Federal Home Loan Banks
CRE Finance Council
Group of North American Insurance Enterprises
Mortgage Bankers Association
National Association of Real Estate Investment Trusts
Property Casualty Insurers Association of America
The Financial Services Roundtable
The Real Estate Roundtable
U.S. Chamber of Commerce