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July 28, 2011

Mr. James L. Kroeker
Chief Accountant
United States Securities and Exchange Commission
Office of the Chief Accountant
100 F Street NE
Washington, DC 20549-1090

Re: Work Plan for the Consideration of Incorporating International Financial Reporting Standards (IFRS) into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation

Dear Mr. Kroeker:

The Accounting and Auditing Procedures Committee (the "Committee") of the Pennsylvania Institute of CPAs ("PICPA") appreciates the opportunity to comment on the SEC's Staff Paper on Exploring a Possible Method of Incorporation ("Staff Paper"). The PICPA is a professional association of more than 21,000 CPAs working to improve the profession and better serve the public interest. Founded in 1897, PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government and industry. The Committee is composed of practitioners from both regional and small firms, members serving in financial reporting positions and accounting educators.

General Comments

The framework outlined in the Staff Paper includes the incorporation of IFRS into U.S. GAAP and then an ongoing endorsement process to incorporate future changes to IFRS. The Committee recalls that the original purpose of the U.S. GAAP / IFRS convergence process was to bring the two sets of standards in close alignment so that they could co-exist in the marketplace without investor confusion. The FASB and the IASB have worked exhaustively as a part of a rigorous due process to converge the standards and yet key differences remain. Those key differences result from significant differences in the institutions that support the financial reporting system (e.g. government regulations, legal climate, developed business practices, investor expectations, and cultural perspectives). The Committee believes, and the FASB's due process supports, the premise that certain IFRS are not appropriate for the U.S. environment, for example, loss contingencies as provided for in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The proposed incorporation of IFRS into U.S. GAAP would negate the due process that went into the current FASB decisions on major projects by ignoring the key remaining FASB/IASB differences.

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If the objectives of convergence have not been met then the Committee would like to better understand why the costs and burden of implementing the major changes resulting from the FASB/IASB convergence projects have been required of all companies that use U.S. GAAP for financial reporting. A two-step process whereby companies must first adopt the converged standards, and then transition to full IFRS compliant standards, is an outrageous and costly proposition that demonstrates a failure to achieve the stated goals of convergence. If the decision is made to transform U.S. GAAP through the incorporation of IFRS, the Committee supports the immediate creation of a separate set of standards and a standard-setting body for privately-held companies.

At this point, the Committee does not support transitioning all current U.S. GAAP users to an IFRS-based "U.S. GAAP." The costs for many companies would far exceed any benefit and for many companies there would be no mechanism to recoup the implementation costs (e.g. small privately held entities, companies in the defense industry that use regulatory accounting, etc.). Instead, the Committee believes that a transition to IFRS could be required for certain issuers (such as global financial institutions), but it should remain optional for others.

Specific Comments

1. Retaining the U.S. GAAP brand – The Staff Paper contends that integrating IFRS into U.S. GAAP would benefit companies as they would not have to revise certain covenants to change the nomenclature. However, as key ratios, metrics and measurements will change as the result of the integration of IFRS, the terms of many contracts and covenants will need to be revised. Thus, the Committee believes that retaining the term "U.S. GAAP" could potentially be misleading and would understate the magnitude of the substantive changes being made to the standards.

2. Translation to U.S. English – The Committee further notes that specific IFRS cannot be incorporated into U.S. GAAP without first being translated to a language that is both understandable in the U.S. and consistent with the application guidance that would be retained. This step is not mentioned in the Staff Paper.

3. Methodology - The Committee notes that certain elements of the approach outlined in the Staff Paper could be positive including the fact that application guidance could be retained and options removed. However, these steps could be achieved through other means (e.g. separate SEC Staff Accounting Bulletins) and while these steps are beneficial they are not prerequisites for successful convergence. Furthermore, multinational companies that already use IFRS in other countries and have already made their global

accounting policy decisions may have to incur additional unnecessary cost to achieve globally consistent accounting methodologies to effect the transition to the "condorsed" version of U.S. GAAP rather than the full IFRS utilized elsewhere.

The Staff Paper proposes prospective implementation for certain items. The Committee notes that this method could result not only in a lack of consistency within the financial statements, but a lack of comparability between companies. We note that the SEC has "described high-quality standards as consisting of a 'comprehensive set of neutral principles that require consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions." [Work Plan pg. 3] If this haphazard approach is taken to implementation, it is difficult to understand how the objective of achieving a high-quality set of standards could be met. Finally, it is not clear how the proposed departures from IFRS would be addressed in the footnotes.

4. Transition process and timeline – The approach outlined in the Staff Paper suggests a long and protracted period of change to lessen the burden of the transition. The Committee does not support a long period of continuous change. Companies will need to make a number of accounting policy decisions during the transition process. We believe that a higher quality set of financial statements would result from companies looking at the whole picture rather than making piecemeal decisions. Furthermore, the implementation of each standard (or tranche of standards) could result in repeatedly making changes on multiple fronts, including IT systems, taxation, compensation, contractual agreements, investor education, etc. The Committee believes that the implementation costs could significantly increase as a result of enduring repeated changes to the standards as opposed to a one-time implementation approach.

   The Staff Paper also proposes an evolving implementation process that would be contingent upon the completion of specific IASB projects. In addition, as noted in the Staff Paper, the standards are highly interrelated and the transition plan would have to be carefully designed to ensure that there are no unintended consequences. While we understand this attempt to minimize the transition burden, the lack of clarity resulting from the evolving implementation time frame and the complexity that could result from ensuring that all interrelated standards are updated at the same time could potentially be more confusing than a single-date approach. Ultimately, the Committee believes that the approach outlined in the Staff Paper is over-engineered and that a simpler solution that can be effectively communicated is desirable.

Instead of a long protracted, evolving, and ambiguous implementation process, we support permitting ample time to adequately prepare for any required transition with options for early adoption for those companies eager to make the transition.

5. Ongoing standards changes – The Staff Paper is silent with respect to continued standards changes during the implementation process. The Committee recommends that any transition plan include a moratorium on the implementation of new standards until after the transition date so that companies would have to undergo a maximum of two periods of transition as opposed to dealing with changing standards during the transition period.

6. Lack of local due process - The Staff Paper notes that "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." Areas identified by the Staff Paper include providing input into the IASB's strategic planning, assisting with specific standard-setting and research projects, developing illustrative examples and implementation guidance, advocating the interests of U.S. issuers, and post-implementation evaluation. As the IASB has tried to position itself as not being dominated by a small group of countries, it is uncertain the extent to which it would welcome this input from the FASB. It is also not clear whether other jurisdictions that have adopted IFRS are in agreement with the suggested involvement by the FASB.

   The Committee is also concerned that the incorporation of IFRS into U.S. GAAP would result in U.S. interests having less input into the standards. The Staff Paper notes that any changes by the FASB in the endorsement process would be rare. The Committee notes that the FASB and the IASB were unable to agree on numerous significant technical points, such as financial instrument offsetting. Given the remaining uncompleted IASB/FASB convergence projects, the Committee expects that the standards will continue to undergo significant changes for years to come. The assertion that the endorsement process would rarely result in changes by the FASB indicates that it intends to subject the interests of U.S. companies to the decisions of the IASB. The Committee does not support the yielding of the control over the U.S. standards to an international body.

Concluding Remarks

We agree that it is important that the U.S. retain a key role in the international standard setting process. We also support the objectives of creating a global set of high quality accounting standards. However, we do not believe that the case has been made to support the requirement that all financial reporting entities in the U.S. transition to IFRS. The impact of an IFRS transition on individual businesses and the economy could be disruptive. We believe that the impact would be especially burdensome to small businesses who are already struggling from the impact of the recession. At the same time, there are many companies that would benefit from the transition to IFRS and others where a requirement to transition to IFRS might be important from a global regulatory position (e.g. financial institutions).

The following Deloitte website highlights the varying approaches of countries throughout the world: http://www.iasplus.com/country/useias.htm. Many countries require the use of IFRS for certain industries, permit an IFRS option for others, and retain a local country GAAP for privately held companies. As the original intent of convergence was to bring the two sets of standards in close alignment so that they could coexist without investor confusion, it seems reasonable upon completion of the major convergence projects to permit U.S. companies the option of transitioning to IFRS. The Committee supports this approach.

We believe that the hurdles to making IFRS an option are much lower than those associated with making it a requirement (e.g. through full integration into U.S. GAAP). Too many significant issues remain unresolved to require all companies to transition to IFRS. Specifically, without a common language, strong and globally consistent enforcement mechanisms, and cultural perspective to support the IFRS implementation globally, the Committee does not believe that the objective of achieving a high quality globally consistent set of accounting standards will be achieved. However, the Committee supports continuing work towards this important goal.

Should the SEC decide to incorporate IFRS into U.S. GAAP, the Committee would support the immediate establishment of a separate set of U.S. GAAP for privately-held entities with a separate standard setting body. The cost of transitioning to a substantially changed U.S. GAAP would far outweigh any benefits to privately-held businesses in the U.S.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Richard E. Wortmann, CPA
Chair, PICPA Accounting and Auditing Procedures Committee