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July 28, 2011

Ms. Elizabeth M. Murphy
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Subject: *Work Plan for the Consideration of Incorporating International Financial Reporting Standards in the Financial Reporting System for U.S. Issuers, Exploring a Possible Method of Incorporation.*

The International Business Machines Corporation ("IBM" or the "company") welcomes the opportunity to share its views on the U.S. Securities and Exchange Commission's (the "SEC" or the "Commission") Staff Paper Exploring a Possible Method of Incorporation (the "Staff Paper").

IBM continues to support the use of a single set of high quality global accounting standards developed and maintained by an independent standard setter. These standards will enable investors to compare companies across national boundaries, enhance the efficiency of capital markets worldwide, improve the quality of information reported by entities in various jurisdictions and reduce the burden and cost of compliance with multiple reporting frameworks – all goals that have increased in importance in light of the recent financial crisis. However, no set of accounting standards will be considered truly global until they are permitted or required for companies domiciled in the United States, and therefore IBM commends the Commission for its efforts in this regard.

The financial crisis has highlighted the fact that the world economy is globally integrated and arbitrage opportunities in the area of financial reporting do not serve the interests of protecting investors, or facilitating efficient capital markets. IBM supports International Financial Reporting Standards ("IFRS") as a set of high quality accounting standards and supports the International Accounting Standards Board (the "IASB") as an organization well positioned to accomplish the objective of developing and maintaining a single set of global accounting standards.

Framework

IBM supports the development of an endorsement mechanism by the SEC for determining whether an individual IFRS standard is of sufficient quality for use in the United States. This approach is used almost without exception around the world and enables the SEC to fulfill its Congressional mandate to determine the accounting standards used in the U.S. capital market. We further support the use of the Financial Accounting Standards Board ("FASB") as the organization to execute this responsibility.

We agree with the Staff Paper that it is critical the United States continues to be active in the IASB standard setting process through participation in agenda and research projects, supporting the IFRS Interpretations Committee (IFRS IC), post-implementation reviews and assisting in communicating views of U.S. constituents. While the company understands that giving the FASB the ability to modify the standards works to protect U.S. stakeholders, we believe the SEC should create strict guidelines on when – and only when – modifications (including the addition of examples and interpretive guidance) are acceptable. The company believes the bar should be set very high in order to prevent changes to IFRS to satisfy preferences of individual members of the FASB or national biases.

If the FASB modified standards for the U.S. market, this action would set a precedent that would likely be replicated world-wide, thereby negatively impacting the ability to maintain a global set of accounting standards. Therefore, any changes to IFRS should only be made when they provide the broader capital market stakeholders with sufficiently superior information to IFRS or only when the IFRS information is proved to negatively impact stakeholders in the U.S. market.

The company believes that enhancements to the activities of the IFRS IC would limit the demand for modifications or additions to IFRS. Specifically, the company believes the IFRS IC should be able to add guidance to IASB standards when that additional guidance is not in conflict with the standards and would provide timely improvements to financial reporting. IBM encourages the SEC, through its activities on the Monitoring Board, to encourage an appropriate level of interpretation and guidance to be issued by the IFRS IC.

Transition Element

IBM does not object to the transition proposals in the Staff Paper since, if executed properly, it would result in achieving the goal of the use of a set of high quality, globally accepted accounting standards in the United States. However, for the reasons stated in the Benefits and Risks section below, IBM continues to prefer an approach that would set a date for the mandatory adoption of IFRS for large filers and provides for the optional use of IFRS for U.S. domestic companies prior to that mandate[1]. If the SEC eventually decides on a transition method similar to the method discussed in the Staff Paper, the company believes the following conditions must be present for the method of incorporation in the Staff Paper to be operational:

- The SEC, based on its experience with IFRS, declares IFRS as suitable in its current form for use in the United States for U.S. domestic companies

[1] See IBM's comment letter to the SEC dated February 19, 2009 and IBM's comments in the December 2007 Roundtable on IFRS, which more fully describes the company's position for preferring a date certain approach.

and sets a specific date for the FASB to complete the initial incorporation exercise;

- Similar to other countries around the world, the initial endorsement decision by the FASB should occur with a single "yes" or "no" vote on the IFRS standards as a package, based on clear objectives determined by the SEC; and
- With the understanding that all U.S. companies will be utilizing a set of standards very similar to IFRS by a certain date, companies that believe the approach outlined in the Staff Paper is not in the best interest of their shareholders should be provided the option to use full IFRS prior to the mandated date without reconciliation to U.S. GAAP.

IBM strongly believes the SEC must set a date for full incorporation of all existing IFRS standards to ensure that the transition method discussed in the Staff Paper does not end up being a mandate for constant change and upheaval in the accounting and financial reporting environment for many years beyond the 5 to 7 years suggested in the Staff Paper. We believe this approach is consistent with the views expressed by a majority of the participants in the July 2011 Roundtables on IFRS. If a date is not determined by the SEC, the company has little confidence based on past convergence experience, that the incorporation exercise would be completed timely or even completed at all. The company's position is not a criticism of the FASB, but a practical recognition of the significant and controversial work effort that will be required to execute the transition plan discussed in the Staff Paper.

The SEC has exercised considerable due diligence in determining whether IFRS is sufficient for the U.S. capital market, notably the efforts behind the:

- 1988 policy statement supporting the establishment of mutually acceptable international accounting standards;
- 1997 report to Congress encouraging the efforts of the predecessor to the IASB to develop a core set of accounting standards that could serve as a framework for financial reporting in cross-border offerings;
- 2000 Concept Release in international accounting standards;
- 2003 SEC study on the adoption in the United States of a principles-based accounting system;
- 2007 decision to eliminate the U.S. GAAP reconciliation for foreign filers;
- 2007 Concept Release on the use of IFRS by U.S. domestic issuers;
- 2008 Roadmap toward IFRS adoption;
- 2010 Commission Statement and staff Work Plan; and
- Current efforts under the Work Plan (including this Staff Paper).

However, if the SEC determines the FASB should undertake further due diligence on IFRS, IBM strongly recommends that such an exercise should be on the existing IFRS standards as a package—not individual standards. A standard-by-standard approach would allow for inappropriate pressure on the FASB to modify the standards already deemed acceptable for use in the U.S. capital markets to fit individual preferences, national biases and special interests. While transition to the new standards could be gradual if deemed appropriate by the FASB, the decision on incorporation should not be staged to avoid confusion, delay, and undue pressure to create U.S. specific application of IFRS.

In order to execute a gradual transition to IFRS, IBM supports organizing the endorsed IFRS standards into two categories for transition: standards that are expected to be replaced (or modified) and effective within the defined SEC time frame and all other standards. The company supports this approach as it will (a) encourage timely completion of the major convergence projects, (b) encourage the IASB to agree to a "stable platform" of standards during the SEC time frame, (c) will not discourage the IASB from continuing to actively deliberate improvements to IFRS, and (d) facilitates an effective approach to incorporation that will minimize disruption and confusion by stakeholders.

Further on point (c) above, the Staff Paper suggests a category of items that are currently on the IASB's active agenda should be excluded from the incorporation process. Many of these projects will not be completed and effective until after the 5-7 year time frame noted in the Staff Paper. If these items were excluded from incorporation, it could result in a multi-year delay in the full incorporation of IFRS. Further, the company believes that if the SEC made this recommendation to the FASB, it will likely have the effect of encouraging the IASB to delay improvements to IFRS that may be in the best interest of investors, current IFRS preparers and the broader markets. Therefore, IBM does not support delaying incorporation for standards (or portions of standards) currently on the IASB's active agenda.

The IASB should be encouraged to have projects on its active current agenda to improve the quality of IFRS and the application of IFRS world-wide as transactions and economies constantly change. IBM understands that the intention of the SEC is to reduce (or practically eliminate) the possibility that companies could have to change to one accounting standard and then change again a short time later. However, the company believes a more effective approach would be to agree with the IASB to a time period of no new effective standards, similar to what other countries experienced when they adopted IFRS. This approach would continue to encourage development of high quality accounting standards and the improvement of existing standards.

The company also has concern that the amount of work involved in the method of incorporation proposed would practically limit the FASB from making any meaningful improvements to U.S. GAAP while it is focused on incorporation. It would be disappointing if a prolonged method of incorporation has the unintended consequence of preventing improvements to U.S. GAAP and financial reporting in general over an extended time period. Since it usually takes 3-5 years to research and issue new accounting standards, this delay could practically result in limited improvements to financial reporting over the next 8 to 12 years.

Benefits and Risks

The company views the method of incorporation discussed in the Staff Paper as a compromise between those that support the move to a single set of high quality global accounting standards and those that prefer the retention of U.S. GAAP. As noted in the Staff Paper, less complex companies may find a gradual approach sufficient and more cost beneficial. However, while it is possible an incorporation method similar to the method proposed in the Staff Paper could be practically implemented by more complex organizations (if clear parameters and conditions exist as noted above), the company believes the risks inherent in that method are significantly greater than a mandatory adoption approach. Specifically, IBM has concern that:

- The transition approach described in the Staff Paper would likely extend well beyond the 5 to 7 years noted in the Staff Paper based on past experience;
- Given the linkage between accounting standards within IFRS, a prolonged, gradual approach could not practically avoid creating the proverbial "third GAAP" during the transition;
- A gradual transition developed by a standard setter will not be able to take into consideration the unique impacts on a company and therefore the approach may be a series of large, partial implementations of IFRS;
- Providing the FASB the ability to modify standards or to determine incorporation on a standard-by-standard basis, coupled with an approach that would exclude current IFRS standards significantly reduces the likelihood that U.S. GAAP will ever be the same as IFRS in the future (versus similar to IFRS);
- The cost of a gradual approach to large, complex companies would likely be significantly greater than the cost of an adoption approach due largely to the continuous impact change has on financial reporting systems and control processes, increasing the likelihood for unintentional errors; and
- A prospective approach – or an approach that modified a large volume of accounting standards annually would not be in the best interest of investors and would impair a company's ability to effectively communicate results.

In the late 1990's, the FASB embarked on a project to codify existing U.S. GAAP. This process did not entail Exposure Drafts or public comment on individual standards, but simply took existing GAAP and put it in a new format. In addition, it did not select only a portion of the accounting standards, and therefore did not have to address the issue of linkage between standards. This codification project took approximately 10 years to complete and was a significant work effort. The company believes the method of incorporation in the Staff Paper would require a greater effort since the FASB would, based on existing due process procedures, be asked to also expose individual standards for comment and address the breakage between accounting standards to avoid creating a "third GAAP" during transition. Therefore, we have concern that this method of incorporation could extend well beyond the proposed time frame.

From a practical perspective, individual accounting standards are inextricably linked within a body of accounting standards. Therefore, we do not believe it will be practically possible for the FASB to identify and effectively communicate all of the links (either directly or by analogy) within the accounting standards on a gradual approach. Further, the U.S. GAAP Codification is not organized in a manner that is exactly the same as IFRS. Therefore, there will be significant questions over whether portions of industry codification topics, for example, should be replaced or whether those industry codification topics should be eliminated entirely.

The impacts of IFRS as a whole, and the impact of individual standards within IFRS, will vary across companies and industries. While the gradual approach may attempt to limit the impact, it will not be possible for the FASB to develop a transition approach that is straight-line for all companies. Therefore, the gradual approach will likely be less gradual in some years and more gradual in others, creating issues with ensuring continuity in the implementation teams.

As a result of these risks and concerns, we believe it will be necessary to provide U.S. domestic companies with an option to adopt full IFRS, as issued by the IASB and without reconciliation to U.S. GAAP prior to completion of the incorporation exercise. This option would allow companies negatively impacted by a gradual move to IFRS to execute the adoption of IFRS in a manner that is in the best interest of the company and its shareholders.

Other

The Staff paper states that the method of incorporation proposed would allow users of U.S. GAAP to be in a position to assert compliance with IFRS as issued by the IASB. However, the method of incorporation is not in compliance with IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. Without a change to IFRS 1 by the IASB, the company is not convinced an unreserved statement of compliance with IFRS could be provided under the proposed method of incorporation in the Staff Paper.

Thank you for the opportunity to comment on the Staff Paper. If you have any questions, please contact me at (914) 766-2008, or Aaron Anderson at (914) 766-2951.

Sincerely,

Gregg L. Nelson
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IBM Corporation