



July 29, 2011

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

**Re: Notice of Solicitation of Public Comment on SEC Staff Paper titled, *Exploring a Possible Method of Incorporation of IFRS***

Dear Ms. Murphy:

The Association for Financial Professionals (AFP)<sup>1</sup> is pleased to comment on the Securities and Exchange Commission's (SEC) Staff Paper, *Exploring a Possible Method of Incorporation of IFRS*, which provides for a method of transition of International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers. The objective of this comment letter is to provide useful feedback as you prepare your recommendations to the Commission.

AFP members understand and support the SEC's mission to protect investors and maintain efficient capital markets. As mentioned in our earlier comment letter on IFRS adoption,<sup>2</sup> AFP believes it is imperative that the SEC continue to meet the overarching goal of providing high-quality financial standards that promote transparency, consistency, comparability and reliability in reporting for U.S. issuers. A unified global accounting standard would theoretically achieve this so long as the standards are consistently applied by all governed jurisdictions. We think the proposed "condorsement" approach, which is a hybrid of the previously proposed convergence and endorsement approaches, is a step in the right direction. We are providing our observations in the following areas:

1. Transition
2. Appropriate Accounting Reference
3. FASB Oversight
4. Other suggestions

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<sup>1</sup> AFP represents approximately 16,000 finance and treasury professionals from over 5,000 corporations, including the Fortune 1,000 and the largest middle-market companies. Our membership includes a significant number of corporate treasurers who are responsible for the protection and management of corporate cash, cash flow requirements and corporate investments, and controllers and CFOs, who are responsible for their corporate accounting, financial reporting and regulatory compliance.

<sup>2</sup> See comment letter submitted to the SEC October 22, 2011 regarding Release Nos. 33-9134; 34-62700; File No 4-608.

## **Transition**

### ***Early Adoption***

If the SEC decides to move toward IFRS convergence, early adoption should be permitted. Currently, the SEC provides foreign filers the option to report under U.S. GAAP or IFRS. Based on this provision, the SEC has oversight infrastructure in place to support dual reporting. Many of our members are multinational organizations with foreign subsidiaries that are already reporting under IFRS. It may be more advantageous for these companies to adopt IFRS more quickly. Thus, we favor an early adoption election.

### ***Gradual Implementation***

AFP also supports the SEC's gradual implementation approach. There are certain AFP members who may determine that the phased-in approach for converting to IFRS is a better alternative for their business model. For example, this would be particularly helpful to smaller companies that currently do not have foreign operations. However, we do not support an open-ended approach without a pre-specified timeframe. We suggest that the SEC prescribe a completion date to FASB at which time all of the standards should be converged—similar to the Memorandum of Understanding (Norwalk Agreement) that FASB entered into with the IASB. The FASB should provide periodic updates to the SEC reporting on its progress toward that completion date.

### ***Prioritization***

If gradual convergence is the preferred approach, the FASB should consider the significance of the standard when setting the priority for convergence. There are some standards that have more of a global impact on the capital markets than others. While the majority of these issues are covered under the Norwalk Agreement which is supposed to be completed by the end of 2011, the priority for the rest should focus on the potential impact and significance of the standard and not necessarily on whether or not they are scheduled for review. For example, changes to the leasing model have been under revision consideration since shortly after its issuance. In this case, if the FASB were to follow the proposed model, the convergence process could go on indefinitely.

## **Appropriate Accounting Reference**

If the SEC allows early adoption, until the two standards are completely merged, and U.S. GAAP is substantially equivalent to IFRS, companies should identify which standard they are following (IFRS or U.S. GAAP). There will be material differences that exist between the two standards until full convergence is achieved. It would be beneficial if companies that early adopt IFRS provide a reconciliation of material differences between the two standards to investors and other users of the financial statements.

We understand that this may raise concerns as many government regulatory oversight bodies and company financial documents have stipulations which require companies to issue financial statements under U.S. GAAP. However, if U.S. GAAP acknowledges IFRS as an acceptable method of reporting, it should correct the problem. If the regulating bodies have conflicting issues, they have the authority to

issue clarifying guidance to their constituents regarding what is acceptable. Thus, their issues should not be the driving force behind the SEC's decision-making process.

### **FASB's Oversight**

After convergence is complete, the Staff Paper indicated that FASB's ongoing role would follow the model set by the SEC in its oversight capacity. Thus, the FASB will continue to have authority to override IASB decisions, although rarely used. AFP urges the SEC to issue well-defined rules, with examples, to clearly explain under what circumstances the FASB may invoke these rights.

### **Other Suggestions**

#### ***IASB Funding***

Previous commenters have raised the funding issues as a significant flaw to the current IASB structure. The International Organization of Securities Commissions (IOSCO) is recognized as the international standard setter for securities markets. Its membership, which includes the SEC, regulates more than 95 percent of the world's securities markets and it is the primary international cooperative forum for securities market regulatory agencies. IOSCO members are drawn from, and regulate, over 100 jurisdictions and its membership continues to grow.<sup>3</sup>

As a suggestion, IOSCO should be urged to take a more active role over the IASB, and its funding, similar to the role of the SEC in the U.S. Members of IOSCO could pay a subscription fee collected from their national registrants. The fee paid could be based on their percentage of the GDP or some other measurement. The funds paid to IOSCO could be used to independently fund the IASB. This would be consistent with the IOSCO's strategic objectives to expand the network of IOSCO's MMoU signatories by facilitating cross-border cooperation, reducing global systemic risk, protecting investors and ensuring fair and efficient securities markets.<sup>4</sup>

#### ***Private Company Standard Setting***

While private company accounting is not under the purview of the SEC, the decision to switch to IFRS for public companies will undoubtedly have a significant impact on nonpublic companies. The U.S. could find itself operating under three different accounting standards if the Financial Accounting Foundation (FAF) follows the Blue Ribbon Panel's recommendation. The SEC should ask the FAF to reconsider its proposed approach until the SEC has announced its decision. If the SEC is on the road to converging with IFRS, the FAF should simultaneously adopt the IFRS for SME's rather than create new standards. In the end, accounting for a transaction should not be different depending on whether or not you are a public company.

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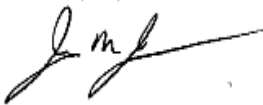
<sup>3</sup> [www.IOSCO.org/about/index.cfm?section=background](http://www.IOSCO.org/about/index.cfm?section=background)

<sup>4</sup> IOSCO's Multilateral Memorandum of Understanding (MMoU)—sets an international benchmark for cross-border co-operation critical to combating violations of securities and derivatives laws.

### **Conclusion**

AFP members appreciate the opportunity to provide feedback on this hypothetical model for implementing IFRS in the U.S. We believe that this global accounting standards initiative will ultimately lower the barrier of entry in the global capital markets. Since the SEC initially issued its roadmap, AFP has encouraged members to plan ahead for potential changes. Ultimately, preparation will be the key to ensure a smooth transition. Please feel free to contact Salome J. Tinker, AFP's Director of Accounting and Financial Reporting Policy for any additional information and questions at (301) 961-8871 or [sjtinker@AFPonline.org](mailto:sjtinker@AFPonline.org).

Sincerely,



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