Grant Thornton

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James Kroeker, Chief Accountant
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U.S. Securities and Exchange Commission
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Via Email to: rule-comments@sec.gov

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Re: File No. 4-600, Commission Statement in Support of Convergence and Global Accounting Standards

Dear Mr. Kroeker:

Grant Thornton LLP appreciates the opportunity to comment on the May 26, 2011 SEC Staff Paper, *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*. We have the following general comments on the staff's proposal.

We commend the staff on their thoughtful and comprehensive efforts under the Work Plan, which we believe will be extremely helpful to the Commission as it deliberates whether and how to incorporate IFRS into the U.S. financial reporting system. We are hopeful that the Commission will soon be positioned to make a determination on the use of IFRS in the United States, which would lift the cloud of uncertainty surrounding the way forward for U.S. capital market participants.

We further commend the staff for their effort in putting forth the Staff Paper. The Staff Paper has succeeded in describing an alternative to other approaches to incorporating IFRS, which demonstrates that incorporation does not have to precisely follow only one approach, but rather can blend desirable aspects of different approaches into a single, cohesive implementation model.

We continue to believe that the overarching goal for accounting and financial reporting is to have a single set of high-quality, globally accepted accounting standards. The objectives of incorporating IFRS through the framework proposed in the Staff Paper include that goal. We also continue to believe that IFRS not only represents a set of high-quality standards, but that it remains the most likely candidate to achieve global acceptance. Already more than 100 jurisdictions require or permit IFRS in their financial reporting systems.

The Staff Paper points out several factors that increase the probability that during and after the period an accounting system is incorporated in a jurisdiction there could be deviations from a globally accepted set of standards but, importantly, the method of incorporation is not the determining factor. Imperfections in understanding, application, and translation would be expected whether a convergence approach, an endorsement approach, or some other approach is used. Still, deviations from a single set of standards can be manageable, such as in the United States where differences exist between the financial statements of foreign private issuers using IFRS and other registrants using U.S. GAAP. The likelihood that there will ultimately be some level of deviation across jurisdictions, however, should not diminish the importance of the overarching goal or the desire to achieve it.

It is important to note here that our views are based on the notion that IFRS is the preferred accounting system for U.S. issuers, rather than for all U.S. entities. Non-public entities may not see the benefit of transitioning to IFRS for a number of reasons, including that they do not have international operations and for smaller companies the proportionate cost of transition could outweigh the benefits of using IFRS. We note that other jurisdictions have successfully adopted IFRS for public entities under a comprehensive plan that maintained differential reporting for non-listed companies.

The transition plan

With any method of incorporation of IFRS into the U.S. financial reporting system there will be advantages and disadvantages. The primary advantage to a convergence approach is that it results in accounting systems that are nearly identical as differences between standards are gradually eliminated with minimal disruption to the financial reporting system. The significant difficulty with convergence, however, is the length of time necessary for it to be completed. While an endorsement approach would not necessarily take as long, the principal difficulty with endorsement is the shock to the financial reporting system from a relatively short transition period. This particular difficulty is directly addressed in the framework's transition approach.

If the objective of transition under the framework is to minimize the impact on U.S. constituents while providing useful information to investors, we believe the *timing* of the effectiveness of individual IFRS is critical. The transition approach under the framework calls for a standard-by-standard endorsement process conducted by the FASB over perhaps five to seven years. The approach however leaves open the question of when those standards would actually be effective for U.S. issuers, suggesting further study by the FASB of "whether the incorporation should be staged, phased, or occur all at once." We believe that how this question is resolved is essential to meeting the transition objective.

We are concerned about uncertainty impacting U.S. constituents who, among other things, need to plan and make resource decisions to effectively manage a conversion to IFRS. Unless all the newly incorporated standards become effective at the same time, capital market participants would struggle with uncertainty about both the timing of incorporation and the extent to which special (e.g. prospective) provisions would apply. There would be timing uncertainty because the incorporation of a standard depends on both the timing of its issuance and the timing of its endorsement. There would be further timing uncertainty if special transition provisions are included for some of the standards. Once an individual IFRS is incorporated into U.S. GAAP, presumably its existing effective date and transition provisions would apply, unless specifically modified. That would mean, for example, that for those IFRS in categories one and two – the current MOU projects and IFRS subject to standard setting, respectively – the FASB would endorse each IFRS after completion of the normal standard-setting process. Hopefully the endorsement process would be completed prior to the effective dates of the individual standards. For IFRS in the third category, which includes IFRS that are not subject to standard setting, at the time each standard is endorsed it would already be effective. For those IFRS in particular, there would be issues around when they should be incorporated into U.S. GAAP, and whether special transition provisions should apply.

We are also concerned that the potential use of different standards, or amalgams of standards, during an extended transition period would provide less useful information to investors. There likely would be benefits to a more gradual transition approach that incorporates individual standards over time. But those benefits should be carefully weighed against the costs from the resulting lack of understanding and comparability of financial statements using a "mixed model," if that results in reduced, or more costly, capital opportunities for U.S. issuers over an extended period. If individual IFRS come "on line" at different times, the financial statements of U.S. entities would not be comparable to statements prepared under IFRS. Nor would they be comparable to statements prepared under U.S. GAAP before the transition began or to statements in each successive year of the transition period, potentially affecting trend analyses along with other vital investor information. The use of prospective application for some of the individual IFRS could further affect comparability between periods, or could create differences that would affect compliance with IFRS in future periods, such as when long term assets are subsequently amortized from a different initially recognized amount. Entities who prepare IFRS financial statements would continue to maintain multiple sets of accounting records, including some U.S. subsidiaries of parents in jurisdictions that have adopted IFRS. Because an option for voluntary use of IFRS would likely mitigate some of these concerns we reiterate our earlier support for an option for U.S. issuers to be able to use IFRS.[1]

Carefully timed endorsement approach

We believe a better answer is to have a carefully timed endorsement approach. The endorsement approach would need to provide enough lead time for constituents to prepare for conversion, including an adequate period for the FASB to endorse those IFRS not subject to standard setting (category 3). Individual IFRS would be incorporated into U.S. GAAP, but none would be effective until a single date, selected and communicated in advance. Transition provisions for individual standards would be addressed under IFRS 1, *First Time Adoption of International Financial Reporting Standards*. For any given IFRS, the FASB's endorsement process could be completed, and the standard incorporated into U.S. GAAP for all to see, at any time prior to the single effective date. What's more, we feel that this approach is well suited for the U.S. market, because U.S. GAAP is already a high-quality set of accounting standards and the convergence efforts by the IASB and the FASB over the last 10 years have brought the two accounting systems much closer together.

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[1] See, for example, our comment letters on the *Concept Release on Allowing U.S. Issuers To Prepare Financial Statements in Accordance With International Financial Reporting Standards* (November 13, 2007), and the *Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers* (April 6, 2009)

To the extent possible, the single effective date selected under the carefully timed endorsement approach would consider the effective dates of new, or significantly modified, IFRS to reduce the need for further system changes and additional costs associated with multiple adoptions at the standards level. Additional benefits would accrue from the IASB implementing, as it did with the conversion of the European Union, a stable platform for the period immediately following the U.S. conversion. A two or three year period of stability, during which significant new and modified IFRS would not become effective, could provide a less disruptive environment for transitioning U.S. constituents.

IFRS 1

An important issue to consider is whether the provisions embedded in IFRS that address transition issues would help mitigate any disruptive impact of a carefully timed endorsement approach on U.S. constituents. IFRS 1 includes requirements and accommodations designed to address difficulties in transitioning to IFRS, and appears to have worked well in many jurisdictions. Investors and other users understand financial statements prepared under IFRS 1. The specific exemptions in IFRS 1 provide for a relatively consistent approach for first time adopters, whether as part of a general adoption of IFRS by a country or region or the subsequent conversion to IFRS by an individual company, such as when a private company would report to the SEC for the first time. IFRS 1 includes exemptions calling for prospective treatment to aid transition in certain circumstances, such as mandatory exemptions for estimates and voluntary exemptions for business combinations. Further, IFRS 1 allows for the flexibility to adopt a new standard before its mandatory effective date if early adoption is allowed, which could save the cost and effort of multiple adoptions. Finally, if additional exemptions are warranted to meet the unique demands of U.S. issuers, we would expect those to be accommodated by the IASB, as we saw recently when Canada moved toward its transition to IFRS.

The importance of a comprehensive plan

Any plan to incorporate IFRS into the U.S. financial reporting system should not be silent about the impact on privately held companies and not-for-profit entities. At a minimum, we suggest that other parties with purview over standard setting for these entities be included in the decision-making process to ensure the explicit consideration of their unique needs. Failure to do so would increase the potential for unintended consequences.

Given the scope of the Staff Paper, the framework does not directly address developing U.S. GAAP for private companies and not-for-profit entities. As noted in the Staff Paper the FASB's standards are not just used by public companies and the components of high-quality standards should likely be similar for all companies, but the FASB's determination of whether and how to modify its standards for other entities is outside the paper's scope. We understand that it may not be optimal for the SEC to directly address the needs of non-reporting entities in light of its primary responsibilities to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation under the federal securities laws.

Currently there is considerable uncertainty about the future of accounting standards for privately held companies. The recent spotlight on challenges in meeting the diverse needs of private entities in the United States suggests the need for a broader focus in standard setting and interpretation for a diverse universe of reporting entities. Following on the heels of the activities of the Blue Ribbon Panel, which ultimately recommended the establishment of a separate body to address the needs of U.S. private companies, the FASB took steps to address private company concerns, such as adding Board representation with a private company focus, establishing a private company portal, and beginning to develop a differential standard-setting framework. The IASB issued separate accounting standards for privately held entities in July 2009, but the FASB did not participate in that project.

Similar uncertainty exists for not-for-profit entities. The status of not-for-profit organizations under IFRS is unresolved. The IFRS Foundation Trustee's Strategy Review issued in April 2011 notes that there is demand for internationally consistent standards for not-for-profit entities, but the Foundation and the IASB will not consider developing those standards until a later date. In the absence of applicable IFRS, it would appear that some not-for-profit entities would need to continue to use U.S. GAAP in public information disclosures provided by conduit bond obligors. We believe that this issue should be addressed in a comprehensive implementation plan, as well as the broader issue of the future of standard setting for all not-for-profit entities.

The role of the FASB

While we agree that the FASB would be the existing body best equipped to have a role in the international accounting arena, we are not convinced that some of the duties and responsibilities proposed in the Staff Paper would represent the best use of the talent and ability resident in the Board and its staff. Specifically, there are certain activities with which we agree, such as assisting in developing and promoting accounting standards, identifying new and emerging issues, and advancing consideration of the U.S. perspective. Importantly, however, at this point we also believe the FASB is the existing body best equipped to meet the needs of the non-public entities in the United States, as it does today. If adequate resources become an issue, it might be preferable for the FASB to establish a committee to manage the endorsement and transition elements of the framework or other similar approach to incorporation. This committee would make recommendations to the full Board, which would retain the authority for actual endorsement of the standards, thus avoiding the difficulties related to having a body other than the FASB setting U.S. GAAP.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Gary Illiano at 212.542.9830 or gary.illiano@us.gt.com.

Sincerely,

Grant Thornton LLP