Setting the global standard for investment professionals

October 22, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
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rule-comments@sec.gov

RE: RESPONSE TO RELEASE NO. 33-9133 (NOTICE OF SOLICITATION OF PUBLIC COMMENT ON CONSIDERATION OF INCORPORATING IFRS INTO THE FINANCIAL REPORTING SYSTEM FOR U.S. ISSUERS) FILE REFERENCE NO 4–607

Dear Ms. Murphy,

CFA Institute[1] appreciates the opportunity to comment on Release No. 33-9133, Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers (the "Release") (File Reference No. 4-607).

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

Executive Summary

While there are a number of challenges to the issue of convergence to IFRS, we do not see the issue of investor preparedness as a major hurdle. Additional education and training are needed and available. Investors dealing with foreign issuers are already well versed in IFRS. If and when IFRS becomes the official standard in the U.S., investors will quickly assimilate the differences and issues surfaced by a move from U.S. GAAP. This process will be facilitated by reconciliations of net income and equity between U.S. GAAP and IFRS for all prior periods presented. Our members have expressed the importance of this issue. Harmonization of standards within the FASB/IASB 2006 Memorandum of Understanding will facilitate the conversion from U.S. GAAP to IFRS, assuming the significant differences will be abridged and hopefully assimilated in the marketplace. Further, the SEC's affirmative decision to adopt IFRS for U.S. registrants is needed to gain the commitment of the investor and user

[1] With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

community to begin their path to gaining greater understanding of IFRS and its impacts on their financial statement analysis and investment decision-making.

Specific responses to the Solicitation of Public Comment:

Investors' Current Knowledge of IFRS and Preparedness for Incorporation of IFRS

Importance & Use of Financial Reporting (Questions #1 & #3) – The importance and the utility of detailed financial reporting information – whether U.S. GAAP or IFRS based – cannot be over emphasized, especially for professionally trained investors and other institutional investors who rely on such information in large part to make investment decisions. This is recognized in our CFA curriculum as well as most other professional training programs designed to teach fundamental investment and financial analysis. There is also a very large contingent of retail and individual investors who rely, to varying degrees, on such information. While this may not be to the same extent or level of detail as the professional analyst, financial reporting information is the cornerstone of the investment decision-making process for most investors.

U.S. GAAP and IFRS are in essence, brands of financial reporting. Investors' perceptions of these brands depend upon the perceived rigor and decision-usefulness of the information provided pursuant to each standard. The extent to which U.S. GAAP and IFRS have harmonized by the date of U.S. adoption will mitigate any brand perception difference. Given the importance of financial reporting to U.S. investors, it is the current brand differences combined with concerns about consistent enforcement of a single global standard that worry many U.S. based investors.

Current Levels of IFRS Awareness & Literacy (Questions #2 & #3) – Professional investors are generally aware of the ongoing debate regarding the incorporation of IFRS into the U.S. reporting regime. Since a final determination on U.S. adoption of IFRS has not been made, most investors have not specifically considered the full effects of such adoption. Moreover, due to the current accelerated pace of separate IFRS and U.S. GAAP standard setting activities – often contrary to a converged solution – analysts and investors struggle to assess differences or similarities, associated with a conversion to IFRS. We believe investors will begin to more closely consider the impact of adoption when a final decision is reached by the SEC and the outcome of major 2006 Memorandum of Understanding (MoU) projects is clear.

Like prepares and auditors, investors will need to scale the learning curve regarding accounting changes in U.S. GAAP and then changes to IFRS, because the MoU projects are not consistently reaching converged solutions. Investors will have to gain an understanding of the U.S. GAAP changes and then quickly assimilate the IFRS changes into their analysis and modeling upon adoption of IFRS. Like all other stakeholders, even investors familiar with IFRS because of their current coverage of IFRS reporting entities will experience an accelerated list of changes as FASB and the IASB move to complete the MoU projects.

Support for and Confidence in IFRS – According to our numerous member polls, there is strong support for IFRS as the single reporting standard. At the same time, most U.S. based respondents are anxious to see continued progress toward harmonization of the two standards, consistent with the MoU. Many U.S. investors feel that a "fully converged" IFRS standard must incorporate more of the rigor they perceive in U.S. GAAP. In any event, a condition to converging to IFRS ought to come with a commitment to prompt, transparent and rigorous harmonization of the two standards into the highest quality framework possible. Our view is that additional time will be needed to achieve such harmonization beyond the completion date for the FASB/IASB MoU, now set for 2011.

IFRS Impact on Comparability (Questions #7) – Comparability is the basis from which support for IFRS emanates and that is why our members support IFRS. However, our members also tell us that different endorsements and interpretations of IFRS across jurisdictions and differences in enforcement of IFRS may diminish comparability. Our most recent survey of members on this topic suggests that members believe IFRS will most likely result in a "global reference point" rather than perfectly comparable standards across jurisdictions. This same survey concludes that within the U.S., the majority of our members believe the outcome of U.S. adoption of IFRS will be IFRS as adopted by the IASB, and interpreted (enforced) by the SEC.

The comparability of standards is also influenced by their application. Many of the new standards stemming from the joint projects require significant judgment on the part of management, more so than U.S. GAAP. With regard to these more principles based standards and greater optionality for issuers, analysts will be required to decipher the resulting judgments and choices made by management. They will be required to adjust their analyses across entities to achieve comparable results upon which they can make relative investment decisions.

IFRS Impact on Investment Decision-making Processes (Questions #8, #9, #10 & #11) –
The extent to which U.S. GAAP and IFRS have been harmonized by the date of U.S. adoption, the perception of the rigor of IFRS, the degree of uniform application and consistent enforcement of IFRS will all impact the perceived quality of IFRS financial reporting. To the extent this perceived quality is reduced in the eyes of U.S. investors, it will impact the amount of time and attention devoted to assessing and making investing decisions. Differences in disclosure requirements may also result in less available data and additional requests of management from these investors to "fill in the blanks".

As it relates to the impact on decision-making of allowing optional adoption of either IFRS or U.S. GAAP, we strongly oppose allowing such optionality as we believe it defeats the purpose of convergence. If the principal objective of convergence is to allow greater cross border comparability and enhance investment decision-making to facilitate the flow of capital more freely across jurisdictions, such optionality undermines that objective. Further, the notion of accounting arbitrage may emerge where companies prepare financial statements under the set of accounting standards which they perceive portrays their results in the most favorable light.

Investor Education Process on Changes in Accounting Standards
Investor Education Regarding Accounting Standards and Changes in Accounting Standards (Questions #4, #5, #6, #12 & #13) – Investors educate themselves at different times in their careers, based on changing expectations, responsibilities and information flow. Many have and will learn IFRS through simple repetition in analyzing IFRS filers, conference programming and other resources noted below. We are confident that investors who are required to regularly deal with issuers that provide IFRS information, have and will continue to refine their IFRS related skills.

IFRS education for investors and others is available in multiple ways. There are numerous training organizations such as IASeminars offering programs on various aspects of IFRS application and differences from U.S. GAAP. There are extensive on online resources related to IFRS education for investors as well as extensive in-house training programs at many accounting firms that can be shared with the investment community. We expect many of the large, buy-side organizations to undertake training and educational activities as well. The CFA Institute itself, has incorporated specific IFRS educational material on all major accounting topics into its curriculum for many years and has published a text for practitioners on analyzing international financial statements. Several of our local member societies (chapters) such as the New York Society of Security Analysts provide IFRS educational opportunities.

We would also expect that many investors will only expand training and education at such time as the SEC makes a clear determination that U.S. issuers will be required to file using IFRS at a date certain.

Investor Involvement in Standard Setting (Question #13 & #14) – It is our experience that investors and other users of financial reporting information do not regularly participate in the standards setting process. Generally, investor/user perspectives are lightly represented in the process and in the responses filed to proposals of both the IASB and FASB. Standard setting consults are typically highly complex and require considerable resource in order to track and respond consistently. For that reason, few analysts and investors follow the details of the accounting standard projects including reviewing project activities, board materials or meeting summaries.

Where investor interest in monitoring and filing comment letters or other commentary might occur is very much issue dependent. Unless an accounting issue is particularly significant to an industry or topic, analysts and investors are generally are not prospective in their consideration of accounting issues.

Many large institutions have accounting analysts who act as "translators" of such information. Such accounting analysts will participate in accounting standard setting activities and will liaise with the firm's financial analysts and portfolio managers to assist them in understanding the changes in accounting standards. These "agents" provide an integral service in the intermediation of accounting information and valuation based investment decisions.

CFA Institute continues to devote significant resources to this effort in order that the user/investor perspective is represented in the process. While we encourage others, including members to participate, we do not expect significantly greater interest or involvement from investors as the process of harmonization progresses.

When Do Accounting Standard Changes Impact Investment Analysis & Decision-making? (Question #15)
The answer here of course depends on the nature of the change. Major changes in methodology, measurement, recognition and display are typically assimilated rapidly by markets. In many cases, they are already reflected in the investment analysis. As we have seen in the stock-based compensation debate in the 1990s and again in the existing debate over fair value, there is a misunderstanding between the accounting and investing community regarding the impact of various accounting changes on share price. During the debate over stock-based compensation, issuers insisted the effects of expensing stock-based compensation would be highly detrimental. Many investors articulated that they had already priced the impacts of such expense in their analysis. The same is likely true regarding the recent controversy concerning the fair valuing of loans.

The financial statements are being made more transparent on information already known by sophisticated investors. However , where accounting standards result in the disclosure of new information, impacts can be sharp. The extent to which details are not already made available in the financial statements or elsewhere in the marketplace, determines just how strongly analysts will react as they decipher a new, greater understanding of the issuer.

Improving Investor Education, Communication and Input on Accounting Standard Changes (Questions #16 & #17) –Participation by investors in accounting standard setting activities might be improved if standard setters better articulated the consequences of their proposed decisions or changes in an analytical, valuation or impact based communication methodology. If investors could gain a better understanding and visualize the impact of the changes, participation might be increased. This would also help to dispel myths or miscommunications regarding the impact of potential changes by those who oppose the standard setters' actions.

A recent but relevant illustration is the ability of investors to understand the FASB and IASB's interest income and credit impairment approaches and to compare the two different approaches. It was very difficult for investors to understand and compare the methodologies because similar examples were not constructed by the IASB and FASB such that the different approaches could be directly compared. With illustrations investors are more inclined to be able to identify the patterns or economics of transactions and communicate back to standard setters their views on the most decision-useful information.

Timing and Logistics of Investor Preparedness (Questions #18 & #19)

Many investors have already begun to educate themselves on IFRS, but the real work of investors will only commence as the work of preparers and auditors is completed. Conceptually understanding the nature of the changes which will occur under IFRS and actually seeing the impact of the changes and assimilating such changes into their investment decision-making process will be much shorter for investors than for preparers or auditors. Preparers and auditors will have several years to plan, make, understand and analyze the impact of the changes. The investors' assimilation period will be much shorter as communication of the change will occur over one or two quarters. Members have advised us that they believe reconciliation of net income and equity between U.S. GAAP and IFRS for all periods presented (three years) will be a critical and necessary requirement of the conversion process, as it will be the most effective means of communicating the changes.

Thank you for the opportunity to comment. We remain committed to offering the user's /investor's perspective into the relevant standard setting activities and look for ways to expand the participation by investors in such process. We welcome any questions or comments you may have.

Sincerely,

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