American Institute of CPAs
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October 14, 2010

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

File No. 4-608

Dear Ms. Murphy:

The American Institute of Certified Public Accountants (AICPA) is pleased to offer its comments on topics related to the Securities and Exchange Commission's consideration of incorporating International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers.

To assist us in preparing our response, we held two conference calls with AICPA members from business and industry who have backgrounds working with public companies. The calls were conducted as virtual round tables and we discussed the questions presented in the Commission's request for comment, Release No. 33-9134.

Global Standards for Public Companies and Importance of Setting a Date Certain

The AICPA supports the goal of a single set of high-quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world. We believe the standards issued by the International Accounting Standards Board (IASB), which are required or permitted for use by public companies in more than 100 countries, are best positioned to become those standards.

The AICPA also supports the thoughtful and concrete steps the SEC is taking as outlined in its work plan. We believe completion of the work plan will provide a solid foundation for the SEC to make a determination in 2011on whether and how to incorporate IFRS into the financial reporting system for U.S. issuers.

We believe the U.S. financial reporting system will take substantive, definite steps to ready itself for IFRS only when the SEC makes a decision to require IFRS and announces a date certain for adoption of IFRS. Accordingly, we urge the commission, as it completes its work plan in 2011, to ensure investor confidence is maintained and key milestones lead successfully to global standards for public companies in 2015 or 2016, as contemplated in the work plan.

Overview of Response

In addressing the questions in each section of the Commission's request, the overriding message from panel participants was that an adequate transition period will be the most important consideration in mitigating concerns outlined in the request for comment.

The success of the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) in eliminating differences between U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) is also a critical factor in determining the amount of time and level of challenge in converting to IFRS.

The transition period to identify, plan and execute amendments to contractual arrangements that will be affected by adopting IFRS, train audit committee members and otherwise deal with issues highlighted in the SEC's request for comment is discussed in more detail later in this letter.

Contractual Arrangements

We view contractual arrangements as a distinct work stream in an IFRS conversion process. Companies will need to take an inventory of contracts and agreements and determine how they will be affected by adoption of IFRS. In cases in which financial reporting requirements of a contract are based on U.S. GAAP, contracts may need to be amended to allow IFRS as the basis of financial reporting. Contracts with metrics based on U.S. GAAP will be more challenging. For example, covenant requirements will need to be renegotiated, compensation arrangements amended, joint venture agreements modified and collaboration agreements updated.

The effort required will depend on company-specific circumstances. Some organizations may have a large volume of contracts that need to be addressed. Examples include companies with extensive leasing activities that have U.S. GAAP reporting requirements, real estate management companies with management agreements that include metrics based on U.S. GAAP and fund management documents for financial services companies. For other companies, the move to IFRS may affect fewer contracts. However, the effect of IFRS on financial metrics will likely be important, regardless of the number of contracts involved.

Some of the arrangements identified in our panel discussion that were not included in the list of contractual arrangements in the SEC's request for comment include the following:

- R&D collaboration agreements
- Acquisition agreements with earn-out provisions
- Licensing agreements
- Joint venture and partnership agreements
- Alliance agreements
- Cost and revenue sharing agreements
- Labor contracts
- Asset management agreements

- Transfer pricing agreements
- Procurement agreements
- Customer supply agreements
- Commission arrangements
- Bonus and profit sharing agreements

Contractual Arrangements – Compared with Change in U.S. GAAP

We believe that the issues associated with adoption of IFRS would, for the most part, be no different in substance from issues associated with the implementation of new pronouncements issued by the FASB. A change in U.S. GAAP could result in unanticipated consequences that would require contract amendments. Although similar in substance to implementing changes in U.S. GAAP, incorporation of IFRS would be a more pervasive change that would occur on a single adoption date.

One area of concern is the magnitude of changes that would be needed to convert to IFRS after the FASB and IASB complete their convergence projects. One specific concern discussed in our round table is how successful standard setters will be in converging standards. The financial instruments project was highlighted as a specific concern by some of the panel members because of the possibility that significant differences could remain after completion of the project. If differences remain between U.S. and international standards after the convergence projects are complete, the shift to IFRS will be more of a challenge.

How would parties address effects of IFRS on contractual arrangements?

The preferred approach to addressing IFRS for contractual arrangements would be to amend contracts. While amending contracts would work in most cases, there would be instances in which dual reporting might be necessary. For example, a joint venture arrangement might have partners with different reporting requirements. However, we believe most companies would elect to amend their contracts instead of maintaining multiple accounting systems.

Transition Period – Contractual Arrangements

Our research indicates that companies will need five years preparation time to adopt IFRS if the SEC requires two years of historical comparative financial statements. If only one year of comparative financial statements is required, a four-year transition period would be needed to adopt IFRS. The AICPA would support a decision by the SEC to require only one year of comparative financial statements.

Whether one or two years of comparative statements are required, a majority of round table participants believe the SEC should allow for **a minimum** of two years preparation time before the earliest opening balance sheet date. Companies will need to start tracking both U.S. GAAP and IFRS results on that date, and we believe most companies will need at least two years to prepare their systems.

Although there are companies that could prepare for adoption in a shorter period, and might prefer to do so, we believe most companies will need the additional transition time. The AICPA would support an early adoption option for companies that want to adopt IFRS sooner.

The four- or five-year transition periods discussed above would be a reasonable amount of time to identify, plan and execute amendments to contractual arrangements that will be affected by adopting IFRS. An important consideration here is that the transition period would allow companies to start anticipating the affects of IFRS for contracts that renew between the decision to adopt IFRS and the actual adoption date. For contracts that do not renew before the effective date of IFRS, an orderly transition will give companies time to renegotiate contract terms in an efficient manner and help hold down costs.

If the SEC decides to mandate IFRS, we urge it to work closely with FASB on how effective dates for new, converged standards align with adoption dates for IFRS. If differences remain between converged standards, panel members said aligning the effective date for new FASB standards with the actual adoption date of IFRS would ease the transition. This will allow companies to focus on adopting the IFRS version of the new standard. Otherwise, companies would have to track differences between new U.S. GAAP and IFRS for historical comparative financial statements. In other words, do not require companies to adopt a new FASB standard for a period of one or two years and then require them to change to the new IFRS.

Education and Experience of Audit Committee Members

When Boards deal with accounting matters, resolving questions of recognition, measurement and presentation will involve the same issues regardless of the underlying accounting regime. We believe the financial expertise involved in resolving such matters is transferable from one accounting regime to another. In cases in which audit committee members require technical determinations, they generally consult with accounting technical experts at their company or their company's audit firm.

We agree that experienced professionals, including audit committee members, will need to enhance their knowledge of IFRS and develop further expertise. Given the magnitude of the change to IFRS, an appropriate transition period (as described above) would permit parties involved to gain such knowledge and expertise.

We believe the SEC should make clear that one would not need to have past experience with IFRS to meet the definition of "audit committee financial expert." Audit committees deal with accounting changes routinely, and will be able to adapt their existing financial reporting expertise to an IFRS environment.

Quantitative Listing Requirement, Statutory Distribution Restrictions and Other Legal Standards Tied to Financial Reporting Standards

Adoption of IFRS could affect some issuers' ability to comply with quantitative listing standards or could affect some issuers' ability to comply with statutory restrictions on distributions, stock repurchases and asset transfers. However, we believe these issues will not be a significant concern to a majority of companies. None of the panel members in our conference calls indicated that issues outlined in these sections were a concern for their organizations. We believe that an orderly transition period as discussed previously would allow issuers that could be affected by quantitative listing requirements and statutory distribution restrictions time to address potential issues.

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The AICPA appreciates the opportunity to submit its comments and would be pleased to discuss them with Commissioners or SEC staff.

Sincerely,

AICPA

Robert R. Harris, CPA
Chairman of the Board

Barry C. Melancon, CPA
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