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COMMITTEE ON CORPORATE REPORTING

October 18, 2010

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

RE: File Number 4-608

Incorporation Implications

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to share its views on topics related to the U.S. Securities and Exchange Commission's ("SEC") ongoing consideration of incorporating International Financial Reporting Standards ("IFRS") into the financial reporting system for U.S. issuers.

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

We support the SEC's efforts on its continued work in analyzing the benefits and costs associated with the use of IFRS by U.S. issuers. CCR continues to believe there are benefits to be derived from the development and use of a single set of globally accepted accounting standards.

1. Issuers' compliance with contractual arrangements that require the use of U.S. Generally Accepted Accounting Principles ("U.S. GAAP")

When new accounting pronouncements are implemented, there may be implications for existing contractual arrangements. Although there will be variations based on industry, proposed accounting changes could have a real economic effect and result in either a change to the contractual obligation or to contract wording. For example, many contracts use definitions based on U.S. GAAP and specifically refer to U.S. GAAP as the basis for terminology or calculations of amounts related to expenses or profit sharing of alliance-type agreements. If changes impact these "cash payment" calculations, the economics of the transaction may change. Any possible revisions to contractual agreements are typically negotiated between the respective parties. In certain instances companies may need to develop and/or maintain multiple accounting systems especially with multi-national companies.

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If the SEC determines that the transition to IFRS for U.S. issuers will be required, then a date certain for the mandatory transition needs to be stated, with an appropriate transition period. This allows companies sufficient time to identify, assess the impact of the change and renegotiate where possible or implement required system changes and gather information required for comparative periods. In addition, the longer the transition, the more likely it is that new contracts will be up for renewal within the transition timeframe and separate negotiations would not be necessary. A five year transition period would be reasonable in mitigating these effects.

2. Issuers' compliance with corporate governance requirements

A. Requirements by Regulatory Bodies:

Regulatory bodies and other third parties (e.g., commercial banks, etc.) have specific U.S. GAAP language that would need to be addressed to avoid adverse unintended consequences. Some include:

- Internal Revenue Service – Without any changes to the current tax code, companies may have to choose to keep three sets of books: Tax, U.S. GAAP and IFRS especially as it relates to the use of Last In First Out ("LIFO") inventory method, tax accounting methods, computation of U.S. earnings and profits for U.S. tax purposes and transfer pricing policies (as is the case with many countries implementing IFRS). FEI's Committee on Taxation ("COT") filed a comment letter on August 2, 2010 that provides additional detail.
- State Legislation – Some state legislation also has implicit language referencing U.S. GAAP and therefore, could cause companies to maintain U.S. GAAP books beyond IFRS implementation.
- International Taxing Authorities – On Transfer Pricing Agreements, in addition to the points in the COT letter, companies would be forced to revisit agreements with every country and determine if IFRS can be used as the basis for these agreements. In the situation where a U.S. company must rely on U.S. GAAP or some version of local GAAP because of these contractual agreements, the Company will need to maintain and add processes around this extra set of books.
- U.S. & International Trade Commissions – The regulations around Mergers & Acquisitions would need to be adjusted to accommodate a move to IFRS.
- Federal acquisition regulations - These regulations will have to be adjusted to accommodate a move to IFRS.
- Federal and State Utility Regulatory Commissions - Gas and electricity utility companies currently keep an additional set of books to comply with reporting required by the Federal Energy Regulatory Commission (FERC) and their respective state public utility commissions (PSCs). Currently, the difference between U.S. GAAP and the FERC/PSC financial statements are typically not significant, to a large extent because U.S. GAAP requires the recognition of regulatory assets and liabilities. Since IFRS does not currently allow the recognition of regulatory assets and liabilities, utilities would be required to derecognize certain regulatory assets and liabilities, if required to adopt IFRS today. The PSCs also rely on U.S. GAAP assets and liabilities in setting rates for the customers of the utilities. If utilities are required to adopt IFRS, there is a reasonable likelihood that FERC and the PSCs would continue to require the preparation of reports under U.S. GAAP for rate-making purposes requiring another set of books to be maintained by the utility.

B. Corporate Governance:

- Audit Committee Financial Experts - Currently, it is a challenge to identify audit committee financial experts due to the pace and significance of U.S. accounting changes in recent years.

While many audit committees at larger companies are currently discussing the general implications of IFRS, the significant "deep dive" to learn about the more significant impacts has not yet been completed as the diagnostic analysis has not been performed. In an IFRS environment it will be more difficult, particularly if the individual is required to have IFRS experience. Furthermore, if that experience is a prerequisite, would financial expert definitions need to be revisited? As preparers, auditors and investors must be educated, it may be more productive to require audit committee members to have been educated on IFRS by the company on whose board they serve or by an audit firm.

- Until there is a definitive date, some companies may not start communicating with their audit committees, unless there have been preliminary diagnostic analysis done.
- Sarbanes Oxley compliance may necessitate companies to duplicate or add additional controls particularly in transition years, in order for their auditors to be comfortable with all published numbers - IFRS as well as other numbers which may be required for contractual purposes, tax purposes, regulatory purposes, etc.

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We appreciate the Commission's consideration of these comments. We are available to discuss these matters at your convenience. Please contact Lorraine Malonza at 973.765.1047 or lmalonza@financialexecutives.org with any questions.

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Attachments

FEI COT comment letter on U.S. Tax Ramifications of the Adoption of IFRS into the U.S. Financial Reporting System here

Comment letters in response to SEC Roadmap filed on April 20, 2009:

FEI CCR and COT comment letter here
Corporate Roundtable on International Financial Reporting (CRIFR) comment letter here