



April 14, 2009

Ms. Elizabeth M. Murray  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-0609

Subject: File No. S7-27-08, IFRS Roadmap

Dear Ms. Murphy,

On November 14, 2008, the Securities and Exchange Commission (Commission) issued proposed rule 33-8982 entitled the "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers." The Lubrizol Corporation welcomes the opportunity to share its views on the Commission's proposed roadmap for the adoption of International Financial Reporting Standards (IFRS) by U.S. registrants.

The Lubrizol Corporation is an innovative specialty chemical company that produces and supplies technologies that improve the quality and performance of our customers' products in the global transportation, industrial and consumer markets. We are headquartered in Cleveland, Ohio and are geographically diverse, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. We operate facilities in 27 countries through the efforts of approximately 6,800 employees. Our consolidated results for the year ended December 31, 2008 included total revenues of \$5.0 billion. The Lubrizol Corporation is defined as a "large accelerated filer" to whom the provisions of this roadmap would require us to file our initial financial results on an IFRS basis for our fiscal year ending on December 31, 2014.

We support the Commission's goal to benefit U.S. investors through "an enhanced ability to compare financial information of U.S. companies with that of non-U.S. companies". The proposed roadmap aims to improve the comparability of financial results for companies throughout the world through the transition to a single set of accounting standards, namely IFRS. However, we believe that such a goal is best achieved through the continued convergence of generally accepted accounting standards in the United States (US GAAP) and IFRS by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

We do not believe that a transition to IFRS would achieve the objective set forth in the roadmap of improving comparability. As the Commission itself observes, the application of jurisdictional variants to IFRS diminishes dramatically the comparability of financial results. Unfortunately, jurisdictional variants to IFRS have been applied in many of the countries which have adopted IFRS. Even the Commission in the proposed release states

“we would retain the ability to take such actions as may be appropriate to address financial reporting issues in filings with the Commission.” Until such time that jurisdictional variants can be eliminated, comparability of financial information will be impaired and unattainable.

In addition to jurisdictional variants, the greater degree of freedom and judgment afforded under IFRS in preparing and presenting financial information diminishes comparability. Principles-based standards by their nature will result in less comparability as individuals will always have differing judgments in applying accounting standards to transactions. Further reducing comparability is the fact that paragraph 12 of International Accounting Standard (IAS) 8 allows a preparer to use recent pronouncements of other standard-setting bodies in the absence of an IFRS that specifically applies to a transaction. The result of this flexibility under IFRS has been the continuation of historical accounting practices by preparers based on their previous local accounting standards. Further, given the familiarity that U.S. companies have with US GAAP, there will likely be a tendency by U.S. registrants to continue to rely upon existing US GAAP as their interpretation of IFRS when there is no specific IFRS standard, thereby undermining efforts for comparability. Recent studies, such as Moody’s “Are We Better Off Under IFRS?” released in November 2008 that concluded that comparability has suffered under IFRS, reinforce the fact that the ultimate goal of comparability under IFRS is not being achieved.

While a transition to IFRS would be a step towards improving comparability, other alternatives, namely continued convergence efforts between US GAAP and IFRS, exist that could accomplish similar results with dramatically less disruption and financial costs to U.S. registrants. The ongoing convergence efforts between the FASB and IASB have improved the comparability of US GAAP and IFRS since the issuance of the Norwalk Agreement in September 2002. We believe that continued convergence efforts can leverage the maturity and depth of US GAAP against the principles-based concepts of IFRS to arrive at standards that draw upon the strengths of each. At the present time, however, it is our belief that the maturity of US GAAP makes it superior as compared to IFRS in the breadth and depth of accounting issues addressed within its framework. Therefore, in our opinion, a mandated change to IFRS would disadvantage U.S investors who would be forced to rely upon a less mature set of accounting standards that is continuing to evolve. Additional progress will undoubtedly be made through 2011 and beyond in the FASB and IASB’s convergence efforts that will serve to improve the quality and comparability among accounting standards without requiring companies to make costly and time consuming changes to their financial reporting processes.

The anticipated costs for our company to transition from US GAAP to IFRS will be in excess of \$10 million, which represents a significant cost to our business. There will be significant costs involved in upgrading our existing financial information systems to handle the parallel reporting requirements for both US GAAP and IFRS during the transition period, developing new company policy and procedures to incorporate the requirements under IFRS and training costs for our employees to understand IFRS. We believe the requirement to implement IFRS by 2012 will force us to devote resources in

this area that would be better served by working on initiatives that generate cash flow for our company and provide value to shareholders, particularly in these challenging economic times.

Compared to the costs expected to be incurred, the direct benefits to our company as a result of adopting IFRS would be minimal. As the Commission notes, “the U.S capital markets are among the largest and most liquid in the world.” A company such as ours has sufficient access to capital within the United States and has accessed other developed markets as needed in the past without having to transition to IFRS. Given the lack of directly identifiable benefits to be derived when compared to the costs, we do not believe that Lubrizol shareholders would benefit from a transition to IFRS.

In light of the jurisdictional variants to IFRS and the lack of comparability among companies currently applying IFRS, we do not support a mandatory transition to IFRS as we do not believe it will achieve the primary purpose set forth by the Commission in the roadmap. Additionally, the significant costs to be incurred contrasted with the limited benefits our company will receive in return for such efforts do not justify a transition to IFRS. We strongly urge the Commission to support and encourage future convergence efforts among the FASB and IASB as the most practical, expedient and cost effective means of improving comparability of financial reporting globally.

If the Commission decides to proceed in evaluating whether U.S. registrants should be mandated to use IFRS for financial reporting, we have concerns regarding the implementation requirements as proposed. Specifically, we are concerned with the following:

1. SEC Timeline Regarding the Mandatory Adoption of IFRS
2. Requirement For Comparative Data Under IFRS at Time of Adoption
3. Development of Accounting Standards
4. LIFO Implications
5. Initial Filing Dates for IFRS
6. Affect on Audit Quality

### **SEC Timeline Regarding the Mandatory Adoption of IFRS**

We believe that the Commission is acting prudently in establishing milestones to be achieved prior to mandating the adoption of IFRS. Considering the long-term nature of these milestones, we believe progress cannot be evaluated reasonably prior to 2011. Furthermore, given the significance of a decision to mandate the use of IFRS, the Commission should allow sufficient time and obtain sufficient evidence to become fully satisfied that the milestones have been achieved. Therefore, we believe that the Commission should delay establishing any mandatory adoption dates until a decision has been reached in 2011 based on the progress against the established milestones. Further, we question whether the Commission reasonably can establish a resolute adoption schedule at this time given the significant number of variables involved in this decision-making process. As evidenced through the implementation of Section 404 of the

Sarbanes-Oxley Act, establishing implementation dates that are repeatedly delayed results in inefficiencies and increased costs.

Further, the lack of mandatory adoption dates at this time would avoid companies incurring costs in anticipation of an adoption date that could be retracted. Our primary concern is that if the Commission enacts the roadmap as proposed but decides not to require the mandatory adoption of IFRS in 2011, our efforts and financial resources will have been wasted with no meaningful benefits to our company. Although the proposed external reporting requirements under IFRS would not begin until 2014 for our company, we will need to commit significant internal and external resources and incur significant costs to this initiative prior to 2011 to meet the deadlines as proposed in the IFRS roadmap.

Before issuing mandatory adoption dates for the use of IFRS, we urge the Commission to obtain commitments from Congressional leaders and other U.S. regulatory bodies to such a significant change in accounting philosophy before mandating a transition to IFRS. In today's economic and regulatory environment, we are concerned whether other U.S. regulatory bodies can accept an accounting framework with fewer rules and more reliance upon the application of judgment. Our company does not want to invest in an initiative that has the potential to be put on hold or delayed in the face of political and public pressure.

However, if the Commission desires to proceed with mandatory adoption dates, we believe the dates should be delayed until 2016 or beyond for large accelerated filers. We do not believe the current roadmap provides us with sufficient notice to prepare for the transition to IFRS due to the delay in making this important decision by the Commission until 2011.

### **Requirement for Comparative Data under IFRS at Time of Adoption**

The current IFRS roadmap includes a requirement for providing three years of comparative data. When non-U.S. companies converted to IFRS prior to January 1, 2007, the Commission provided an accommodation permitting eligible foreign private issuers for their first year of reporting under IFRS to file two years rather than three years of statements of income, changes in shareholders' equity and cash flows prepared in accordance with IFRS, with appropriate related disclosure. This was done to ease the burden on preparers of transitioning to the new accounting standards.

We urge the Commission to consider requiring only two years of comparative data, consistent with the requirements of paragraph 36 of International Financial Reporting Standard 1 and the accommodation made previously for non-U.S. companies. Further, we urge the Commission to require only two years of comparative information under Item 301(a) of Regulation S-K. Presenting only two years of comparative financial information would reduce the costs of conversion from US GAAP to IFRS for all companies by necessitating one less year of parallel accounting, along with the

elimination of external audit fees of IFRS financial results for the additional one-year period.

### **Development of Accounting Standards**

We have concerns over being subjected to a standards setting process that is outside of the complete control of the United States. While the United States would have representation on the IASB, our influence in the standards setting process would be diminished greatly. While neither the FASB nor the IASB have been immune to political pressures when developing new standards, the prospect of being subject to standards shaped by political pressures outside the United States is not appealing. If adoption of IFRS is mandated, the voice of the United States will be just one among many on the IASB. Therefore, we believe that another benefit of the continued convergence efforts is the influence afforded to the United States in shaping future accounting pronouncements. During the convergence process, objections raised by the FASB would be given greater clout as both the FASB and IASB strive to achieve convergence. Further, the FASB would not be compelled to establish standards to correspond with IFRS if it found them to be objectionable.

### **LIFO Implications**

The majority of our inventory in the United States is valued using the last-in, first-out (LIFO) method. Assuming the Commission mandates the use of IFRS as issued by the IASB, LIFO would no longer be an acceptable inventory valuation method for financial reporting purposes. The elimination of LIFO accounting would have negative implications for our cash flow. Since present U.S. tax law requires conformity among the use of LIFO for financial and tax reporting purposes, the elimination of LIFO for financial reporting purposes would significantly increase our current U.S. income taxes payable. Therefore we seek the Commission's support for modification of U.S. tax laws to eliminate the LIFO conformity requirement.

### **Initial Filing Dates for IFRS**

The 2014 IFRS financial statements, accompanied by comparative figures for 2013 and 2012 as proposed, will not be published or audited until 2015. As there are many points that will need interpretation in the new standards, a greater amount of time will be required in the initial preparation of IFRS statements to ensure the reliability and integrity of the financial information. We believe the filing dates in the year of adoption of IFRS should be extended to allow 90 days for the filing of the Annual Report on Form 10-K and 45 days for the filing of a Quarterly Report on Form 10-Q. After two years of experience in reporting under IFRS, we would recommend returning to the required filing dates for Form 10-K and Form 10-Q currently in effect. We agree strongly with the Commission that the first IFRS filing should be for an annual report and not a quarterly filing to allow for additional time to transition to IFRS.

## Affect on Audit Quality

As IFRS relies more upon “principles-based” accounting standards, the judgments of preparers influences financial results to a greater degree than under US GAAP. Registered public accounting firms are then required to evaluate the judgments applied by management in forming their audit opinions. As these firms operate in a regulated environment under the Public Company Accounting Oversight Board (PCAOB) and within the litigious environment present in the United States, audit firms are under intense pressure when forming the basis for their opinions. The pressures faced by these firms often lead to the auditors developing their own interpretations and guidance to apply standards and judgments from which they seldom deviate. Under a set of accounting standards that require an increased use of judgment, consideration must be given to establishing rules through the PCAOB to provide audit firms with greater latitude to apply judgments without the fear of recrimination during a firm’s inspection process or in legal proceedings. Recommendations, such as those submitted in the “Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission” in August 2008 must be considered and enacted to ensure management and auditors can reach agreement on complex matters of judgment in an efficient and timely manner.

We appreciate your consideration of these matters. If you have any questions or would like to discuss our responses further, please call the undersigned at 440-943-4200.

Sincerely,



Charles P. Cooley  
Senior Vice President - Chief Financial Officer and Treasurer



W. Scott Emerick  
Corporate Controller and Chief Accounting Officer