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Ms Elizabeth M Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington
DC 20549-1090
By e-mail to: rule-comments@sec.gov

24 April 2009

Dear Ms Murphy,

File S7-27-08 - Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by US Issuers

The Financial Reporting Council (FRC) is the United Kingdom's independent regulator responsible for promoting confidence in corporate reporting and governance. On behalf of the FRC, I am pleased to submit our comments on the Commission's proposed Roadmap for the potential use of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) by US issuers in their filings with the Commission. We are submitting these comments because we believe that the decision which the Commission makes on the acceptability of IFRS for use by US issuers will be significant to the future development of IFRS, a matter of considerable importance to the FRC.

The FRC has not sought to answer each of the Commission's specific questions, but rather to provide some general comments on a number of the issues set out in the Roadmap that we think are of particular importance.

The FRC has significant experience arising from the UK's approach to the adoption of IFRS. We would be very willing to discuss our experiences with you if that would be helpful.

General comments

The FRC welcomes the Commission's proposed Roadmap which is an important step towards the adoption of IFRS by US issuers. We believe that the adoption of

IFRS by US issuers is a desirable aim, although we recognise that the challenges to be overcome before IFRS could be made mandatory for all public companies in the US are considerable. The FRC supports the Commission's view that the benefits of adopting IFRS are attainable only if IFRS means "IFRS as issued by the IASB" and not a multiplicity of divergent standards using the same name (Roadmap, page 83).

Our principal recommendation is that the Commission enhances the global acceptance of IFRS as a set of high quality accounting standards by extending to US companies the option of filing financial statements prepared under IFRS. However, we believe that the rationale for this decision should be different from that proposed by the Commission in its Roadmap. We believe that the rationale should not be linked to a possible future mandatory requirement for US issuers to use IFRS but should be consistent with the Commission's 2007 decision to allow non-US issuers to file financial statements without reconciliation to US GAAP, in particular that IFRS as issued by the IASB is a set of high quality accounting standards which provide information which is appropriate for use by US investors. Consistent with this, we invite the Commission to consider making the option to use IFRS available to all US issuers who can demonstrate their competence to implement IFRS satisfactorily. Further explanation of our views is provided later in this letter in the section dealing with milestone 5.

Improvements in accounting standards (Milestone 1)

The FRC welcomes the fact that Milestone 1 highlights the importance of improvements in accounting standards. The FRC acknowledges the importance placed by the Commission on the IASB and the FASB continuing to work together towards the completion of their joint work plan (Roadmap, page 23). It is also important that other national standard-setters are closely involved in the process. That said, we believe that the goal has to be a set of "high quality and sufficiently comprehensive" global standards (Roadmap, page 23), with the focus on achieving improvements in financial reporting, whether under US GAAP or IFRS, rather than convergence of IFRS and US GAAP as a goal in itself.

It is not clear whether full convergence could ever be achieved by means of a step by step process. One illustration of the difficulties is that not all the all the projects are being taken forward by both Boards. For example, under the work plan, the IASB has on 31 March issued an Exposure Draft of an IFRS to replace IAS 12, with the aim of finalising a standard in 2010. However, the FASB has suspended indefinitely deliberations on it and has no plans to issue an amendment to Statement 109 at this time.

The FRC has concerns as to whether a number of projects on the joint IASB/FASB work plan will result in the required improvements in financial reporting. In our view, the work plan should be reviewed so that it concentrates on projects that will lead to improvement rather than convergence.

The FRC also has concerns at the scheduled volume of activity on the joint work plan and the number of new/amended IFRS scheduled to be finalised by 2011. Our experience of the UK's staged adoption of IFRS is that there is a need for a stable platform for national GAAP and for IFRS during a transition period. Our experience of tracking IFRS in the period up to adoption by listed companies in 2005 was that it was very time consuming with many changes were being made to IFRS which were released as a package in March 2004. Market participants expressed concerns at both the volume of change and the substance of many of the changes and whether in fact they delivered improvements in IFRS.

The FRC supports the Commission's emphasis on the importance of accounting standards being established under a robust, independent process that allows for input from and consideration of views expressed by all parties (Roadmap, page 23). The FRC notes that the IASC Foundation already has extensive due process procedures in place for the development of IFRS. However, given the high level of planned activity on the joint work plan, the FRC is concerned that the amount of time that both the IASB/FASB and their constituents can devote to any one consultation document will be inadequate.

This will be particularly the case in the USA and other jurisdictions that are moving towards the adoption of IFRS, where constituents will need additional time to be able to fully engage in responding to consultations given their relative lack of familiarity with existing IFRS literature.

You may wish to consider whether to call for a reduction in the volume of items on the IASB agenda in the period up to 2011.

We also agree with the Commission that it is important that accounting standards are promptly considered to keep standards current and reflect emerging accounting issues and changing business practices. To achieve this there may be occasions where the IASB may need to shorten its due process in order to achieve a timely solution, but the FRC would be concerned if this was done in anything other than rare circumstances and where the benefits of making a rapid change are very clear.

Accountability and funding of the IASC Foundation (Milestone 2)

The FRC agrees with the comments made by the Commission that the IASC Foundation needs to achieve a secure, stable funding mechanism that supports the independent functioning of the IASB (Roadmap, pages 24-25). The FRC has played its part by introducing a funding mechanism for the UK contribution to the IASB that meets the desired characteristics set out by the IASC Foundation Trustees. The Trustees continue to work hard on the funding and we think that the Commission's determination on the mandatory use of IFRS by US issuers could be made on the basis of the progress made towards achieving a secure, stable funding mechanism, rather than waiting until that goal has been achieved.

The FRC shares the Commission's belief that accountability of the IASC Foundation has been enhanced by the establishment of the Monitoring Board to provide a direct link between the Trustees and official institutions (Roadmap, page 26). While the initial membership of the Monitoring Board is concentrated on securities regulators, the FRC believes that, in due course, it should be extended to encompass official global organisations with a wider range of responsibilities, notably those with financial stability, banking and insurance mandates, provided that the primary aim of accounting standards to improve information to providers of capital is respected. Irrespective of the membership of the Monitoring Board, it is important that, while the IASC Foundation and IASB should have political accountability, should not be subject to political interference or undue influence from any one source.

The FRC would also recommend that the Commission, in its deliberations on milestone 2, assesses the proposals set out in the Trustee's current discussion document on Part 2 of their review of the IASC Foundation Constitution.

Limited early use of IFRS (milestone 5)

The FRC believes that the Commission should allow early use of IFRS by US issuers. We believe that the rationale for giving US issuers this option should not be linked to a possible future mandatory requirement for US issuers to use IFRS but should be consistent with the Commission's 2007 decision to allow non-US issuers to file financial statements without reconciliation to US GAAP, as a result of concluding that IFRS is a set of high quality accounting standards.

In its Final Rule Release on the elimination of the requirement for non-US issuers to reconcile to US GAAP the Commission stated:

"IFRS as issued by the IASB and US GAAP are both sets of high quality accounting standards that are similar to one another in many respects ..."

The FRC believes that this assessment continues to be appropriate.

In that Release the Commission also stated that:

"We believe that investors can understand and work with both IFRS and US GAAP and that these two systems can co-exist in the US public capital markets ..."

The FRC also believes that this assessment continues to be appropriate and we note that IFRS and US GAAP co-exist satisfactorily in the European capital market.

Consistent with this we invite the Commission to consider making the option to use IFRS available to all US issuers who can demonstrate their competence to implement IFRS satisfactorily, rather than just to those in industries in which IFRS is already used to a significant extent. One way in which US issuers could demonstrate their competence would be as follows:

- Issuers would prepare two years of financial statements under IFRS with full reconciliation to US GAAP and file them with the Commission requesting a staff letter of no objection to the use of IFRS.
- The financial statements would have to be accompanied by an unqualified auditor's report which opines that the financial statements comply with IFRS.
- The issuer would have to provide satisfactory answers to questions on the financial statements raised by Commission staff.

With regard to the alternatives for the provision of US GAAP reconciling information proposed by the Commission, the FRC supports Proposal A – Reconciled Information Pursuant to IFRS 1 (Roadmap, page 68), on the grounds that it is both simpler to apply than the alternative and in line with the way in which the first-time adoption of IFRS has been handled in many other jurisdictions. The alternative Proposal B – Supplemental US GAAP Information (Roadmap, page 70) appears to us to be both more onerous and to imply a less than full confidence in IFRS. It would also impose on US issuers adopting IFRS a requirement which is not imposed on foreign private issuers, who can report on the basis of IFRS without reconciliation to US GAAP.

Timing (milestone 6) and implementation of the mandatory adoption of IFRS (milestone 7)

We note the Commission's view that the Roadmap could lead to the eventual use of IFRS by all US issuers on a mandatory, rather than elective, basis (Roadmap, page 33). We think that the Commission's proposal to make the transition in stages (Roadmap, page 35) is a sensible one. We have some comments based on the experience of the adoption of the IFRS in the UK which the Commission may find helpful.

The UK is adopting IFRS in stages and many UK companies do not currently use IFRS. Our experience is that this phased approach has served us well and is a model that is worthy of consideration

IFRS was adopted for all listed companies in 2005. Consideration was subsequently given to whether other UK companies should be required to adopt IFRS. The London Stock Exchange then decided to require that all companies traded on AIM should use IFRS from December 2007. Finally, the FRC's Accounting Standards Board has more recently been discussing whether large private companies should use IFRS or perhaps the proposed IFRS for non-publicly accountable entities, and plans to consult on this later this year.

Some of the benefits to the UK of this phased approach to IFRS adoption include:

- larger companies took the burden of analysing transactions that are structured to comply with UK laws and regulations;
- training agencies and professional institutes were able to manage the substantial increase in demand;

- audit firms were able to convert their staff to IFRS over a number of years and did not face having to retrain everyone at a single point in time; and
- the costs and benefits of implementation could be assessed based on the experience of those that have already converted.

We note that the Commission anticipates that US GAAP will need to be maintained for US companies that are not registrants. This is consistent with our experience to date which has meant that we have maintained UK accounting standards which are applied by the vast majority of UK companies by number.

Whilst maintaining UK accounting standards involves some additional costs, we also experience significant benefits from an active national standard setter. In particular, we are better able to work with the IASB and other national standard setters, help the IASB have an effective dialogue with UK constituents, and to be able to develop major proposals for improvements to future standards. You may wish to give consideration to a similar model as US contributions to the development of IFRS will continue to be important.

If you would like to discuss any of the comments made above, then please contact Ian Wright on 020 7492 2330 or me on 020 7492 2390

Yours sincerely



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