NASBA

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CHAIRMAN'S
CORRESPONDENCE UNIT

February 23, 2009

Chairman Mary Schapiro
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Chairman Schapiro:

On behalf of the National Association of State Boards of Accountancy (NASBA), I would like to congratulate you on your appointment to Chairman of the Securities and Exchange Commission and to express the hope that we can continue to facilitate the flow of information between the Commission and the State Boards of Accountancy. Our organization, which is a forum for the 55 boards of accountancy that license the profession in the US and its territories, is dedicated to enhancing the effectiveness of state boards. We have been doing this over the years by working to keep the communication channels open between the state boards and the SEC.

We recently submitted the enclosed comments on the SEC's proposed Roadmap to adoption of International Financial Reporting Standards. A copy was e-mailed to you last week. As that letter states, we do have some doubts about the Roadmap as it was proposed. We would be eager to discuss some mutual concerns at a comprehensive meeting with you at your convenience.

Realizing that you are no doubt immersed in appointments and meetings during this transition period, I will call your office at a later date and see if there is a time when we can meet to review how we can best continue to meet the mutual responsibility of the SEC and the state boards, the protection of the public.

Sincerely,

David A. Costello

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President & CEO

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February19, 2009

The Commissioners
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Attn: Ms. Florence E. Harmon, Acting Secretary

By mail and e-mail to rule-comments@sec.gov

RE: File Number S7-27-08 "Roadmap For The Potential Use Of Financial Statements Prepared In Accordance With International Financial Reporting Standards By U.S. Issuers"

Dear Commissioners:

We appreciate the opportunity to offer comments to the Securities and Exchange Commission (SEC or Commission) on the "Roadmap For The Potential Use Of Financial Statements Prepared In Accordance With International Financial Reporting Standards By U.S. Issuers" (Roadmap).

The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness of the 55 State Boards of Accountancy (State Boards). The State Boards have the sole authority to establish licensing requirements for becoming a certified public accountant in each of the 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands and Commonwealth of the Northern Mariana Islands, as well as the authority to suspend or revoke such licenses. The primary role of NASBA is to serve as a coordinator and a forum for the State Boards and to express the views of State Boards on matters, including standard setting, that have a potential impact on the protection of the public interest. In furtherance of the mission of NASBA, to enhance the effectiveness of State Boards and to express their views on matters of their publics' interest, we offer the following comments.

To protect the public interest, State Boards set accounting, auditing, ethics and continuing professional education standards for their licensees and their firms. The State Boards have historically chosen to recognize the standards of other organizations, such as the Financial Accounting Standards Board (FASB) and its predecessors, and have also instituted some specific modifications or additions to the standards to meet the needs of their publics.
In response to the SEC's request for comments on the "Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards" (Concept Release), we commented in November 2007 on the critical importance to

financial reporting in the United States of maintaining the FASB as the sole standard setter for U.S. financial reporting standards. In addition, NASBA also urged the Commission to continue to pursue the course set by the FASB and the International Accounting Standards Board (IASB) to converge U.S. Generally Accepted Accounting Standards (GAAP) with International Financial Reporting Standards (IFRS) as promulgated by the IASB.

The FASB is responsible for setting accounting standards in the United States for both U.S. public companies that report to the SEC (U.S. issuers) and private companies that do not report to the SEC (U.S. non-issuers). The FASB has continued to set high quality reporting standards for the U.S. (U.S. GAAP) since its inception in 1973, both for U.S. issuers and non-issuers. The business of non-issuers, both large and small business enterprises, represents a significant percentage of business activity and over half of the employment in the U.S. Such private businesses serve as the bedrock for capital development and economic growth in the United States.

The development of standards by the FASB and its predecessors has always been inclusive of U.S. issuers and non-issuers. One set of financial reporting standards has always been used by both. Reporting needs of small businesses have been considered by the FASB and have resulted in differences in financial statement disclosures and dates for implementation of financial reporting standards for U.S. issuers and non-issuers. Advice on the ongoing reporting needs of small businesses is provided to the FASB by its Private Company Financial Reporting Committee. The FASB sets the financial accounting standards for U.S. issuers and non-issuers alike.

Continuing Need for the FASB

Were the Commission to mandate the adoption of IFRS and recognize the IASB as the setter of financial accounting standards for U.S. issuers, assessments on U.S. issuers presently used to fund the operations of the FASB would likely be directed towards funding the operations of the IASB. A standard setter for non-issuers would have to be established. In accord with Amendment X to the Constitution of the United States, financial reporting standard setting for non-issuers is among the powers reserved to the states. It is not likely that the states would accept the IASB, a non-U.S. organization, as the one to set standards for U.S. non-issuers. Therefore, the states would have to establish and fund a standard setting organization that would be independent of pressure from the non-issuers and their auditors. It would be a daunting, but not impossible, task to establish a credible second standard setter. However, having two standard setters in the United States would not be in the public interest.

Were the Roadmap to be implemented by the Commission, it would adopt IFRS set by the IASB and, thereby, substitute international standards that have been developed primarily by the IASB over the past 7 - 8 years for U.S. standards developed by the FASB over the past quarter century. This would abandon the process of convergence which the Roadmap recognizes as "an important means of increasing the quality of IFRS and [U.S.] GAAP and, at the same time reducing the disparity between the two."

The Roadmap states that [it] "does not address the method the Commission would use to mandate IFRS for U.S. issuers. One of the options would be for the FASB to continue to be the designated standard setter [of the SEC] for purposes of establishing the financial reporting standards in issuer filings with the Commission. In this option, [the Commission's] presumption would be that the FASB would incorporate all provisions and all future changes to IFRS directly into [U.S. GAAP]." NASBA believes that this suggested course of action by the Commission, which would reduce the role of the FASB to that of a "rubber stamp" standard setter, is not in the interest of the U.S. public.

The FASB, its committees and task forces, are vital to the development of high quality financial reporting in the United States and should be continued in their present roles of setting financial reporting standards for U.S. issuers and non-issuers. We urge the Commission to continue its support of the joint efforts of the IASB and the FASB to converge standards, to the extent possible, as they work to their target completion date in 2011, rather than move towards adoption of or transition to IFRS.

Jurisdictional Differences

In an ideal world, a single set of accepted accounting standards set by an international regulatory organization could be globally accepted. However, we do not live in an ideal world and it is unlikely that an international regulatory organization would ever effectively be created by nations to set accounting standards. Further, it is unlikely that a single set of standards could be developed by a non-governmental international organization and accepted by all countries. That has not occurred to date -- even with the endorsement of IFRS by over 100 countries.

Many of the more than 100 countries have endorsed IFRS use only that portion of IFRS that is useful for their purposes. Some countries have adopted only a limited number of the standards. Countries that have adopted IFRS have made changes to the accounting standards promulgated by the IASB in order to satisfy their local reporting needs. Such needs are influenced by substantial legal, cultural and environmental influences. As a result of such needs, jurisdictional variants of IFRS have become the norm and are likely to continue into the future. There is simply no assurance that all countries embracing IFRS will apply the standards in the same way to achieve comparability—the chief benefit argued for a single set of standards.

Today there is not one set of financial reporting standards that is globally used. Countries that have endorsed IFRS are likely to view the standards set by the IASB as a model set of financial reporting standards with each country deciding whether to use or tailor a given financial reporting standard to its needs. The joint efforts of the IASB and the FASB to converge standards, to the extent possible, could ultimately result in a form of jurisdictional adoption of IFRS by the FASB, similar to other countries that have maintained their accounting standards boards with the endorsement of use of jurisdictional IFRS.

One such jurisdictional change from the provisions of IFRS that would be required in the United States to protect U.S. issuers that utilize the LIFO inventory method would be to permit continued use of the LIFO inventory method of accounting, which is not permitted by IFRS. (LIFO is not relevant to taxation overseas.) The Roadmap notes that, "U.S. issuers changing to FIFO for financial reporting purposes may experience a change in taxable income based on the difference between inventory valued on a LIFO basis and on a FIFO basis." Such a change in taxable income could cost U.S. issuers and non-issuers billions of dollars. A jurisdictional exception to IFRS would be needed to avoid the payment of such additional taxes, and would be in the interest of the United States public.

Providing Guidance

The Roadmap has not made a compelling case for the Commission to mandate the use of IFRS by U.S. issuers. U.S. GAAP has been referred to in the past as "rules-based" and IFRS has been referred to as "principles-based." The Roadmap notes when referring to prescriptive [rules-based] guidance, that ". . . less prescriptive [principles-based] guidance may increase issuers' ability to account for transactions or events with their underlying economics, which could improve comparability of economically similar situations and highlight differences in dissimilar situations." However, IFRS is incomplete when compared to U.S. GAAP, which covers many issues not addressed by IFRS, including industry guides or a consensus of the Emerging Issues Task Force. In addition, new IFRS standards have been issued but are yet untested and their effectiveness is not known.

The Roadmap fails to explain how existing prescriptive guidance does not facilitate the recording of transactions in a manner that shows the underlying economics. Nor has the Roadmap provided information that would indicate that IFRS is better than U.S. GAAP in providing guidance to investors and others on the expected future cash flows of U.S. issuers.

Included in the Roadmap is the comment of the Commission's Advisory Committee on Improvements to Financial Reporting to the effect that principles-based accounting should reduce investor concerns about "financial engineering" by companies using the rules to avoid accounting for the substance of a transaction. We also note that companies using broad based "principles" can also "engineer" transactions to meet the "principles" so that desired financial reporting can be attained which meet the financial reporting requirements specified in "principle-based" standards. Principles-based IFRS can be "engineered" to reach a desired result, regardless of the economics of a transaction. NASBA believes that principles-based accounting will not reduce investor concerns about "financial engineering." NASBA further notes that "engineering" is an ethical issue and not a technical issue, and that ethical issues cannot be solved with technical solutions.

The Roadmap notes that implementation guidance in U.S. GAAP is more fully developed than the guidance available under IFRS. In fact, a number of issuers look to U.S. GAAP implementation guidance when none can be found in IFRS. Such guidance has been developed based on requests from issuers and from their auditors. The staff of the SEC has also provided guidance to U.S. issuers through the Staff Accounting Bulletins for topics that it believes are not fully covered elsewhere. We believe that implementation guidance in U.S. GAAP is of great benefit to financial reporting, not a detriment as some have expressed.

The Commission cites its Policy Release (33-8821) of April 25, 2003, which encouraged the Financial Accounting Foundation (FAF) and FASB to consider including greater use of principles-based accounting standards whenever reasonable to do so. We recommend that accounting standards as re-written should each have the guiding principle on which the required financial reporting is based stated at the beginning of the standard.

At this juncture, IFRS and its "principles-based" accounting standards have not been shown to be ready to be substituted for U.S. GAAP and it is premature to give consideration to the idea of mandating IFRS for U.S. issuers. NASBA continues to believe that the convergence approach is the best roadmap for the Commission to use and that convergence will continue to facilitate the free flow of capital, goods and services globally.

Need for Independence

NASBA is concerned, as is the Commission, about potential threats to the independence of the IASB. In our letter dated November 13, 2007 to the Commission regarding the Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Standards, we wrote that, "It has been repeatedly demonstrated in the U.S. that an effective standard-setting body must be independent of any special interest in membership, funding, governance and mission." We note that one of the reasons that the FASB was established in 1973 to replace the Accounting Principles Board of the American Institute of Certified Public Accountants was public perception that the Board's decisions may have been influenced by clients of public accounting firms.

Unlike the FASB, whose funding is through assessments on companies that report to the Commission, as mandated by Congress, the IASB is dependent on contributions, including significant funding from public accounting firms. The IASB, therefore, is not free from influence by members or member organizations of public accountants or, for that matter, the clients of such firms. One illustration that the IASB may lack independence is the recent change in the IFRS rules for "mark-to-market" accounting.

We have previously suggested that the funding for the IASB be mandated by the sponsoring governments, even though governments could still reduce, delay or withdraw their support based on the level of satisfaction of the outcome of the decisions of the IASB. We believe that until such time as the independent funding of the IASB and the source of funding is assured, no U.S. issuer should be permitted to change to IFRS.

Maintaining the FASB as an active standard setter avoids having to make a determination of the independence of the IASB since the FASB would be charged with the responsibility of determining which of the IASB's pronouncements should be adopted or modified as part of the convergence process. Maintaining the FASB with independent funding also avoids the possibility of a need for a new independent standard setter for non-issuers.

Loss of Sovereign Power

NASBA believes that the adoption of IFRS by the Commission would significantly and negatively impact securities regulation in the U.S. The Roadmap states that, "A change to commit U.S. reporting to following IFRS would include a change in the relationship of the U.S. capital markets to the accounting standard setting process" and that "[this] would mean that the interaction and potentially the relevance and influence, of U.S. capital market participants, including the Commission and its staff, would be reduced compared to the current standard setting process in the United States." The Commission notes that the "Commission's participation in the oversight of the IASB would principally be through participation in the Monitoring Group proposed by the IASB's governing body." As a result, the SEC would lose its present ability to directly control the setting of accounting standards in the United States and would settle for a "less direct relationship." We believe that such loss of regulatory authority would be, in effect, a de facto loss of sovereign power to have full authority to regulate securities in the U.S. and should not be a position acceptable to the Commission.

The IASB has recently shown that it does not now consider the needs of all stakeholders that rely on financial statements prepared using IFRS. The European Commission (EC) demanded, in effect, that the IASB change its accounting standards that required mark-to-market accounting for certain financial instruments. In response to political pressure from the Europeans, the IASB agreed to a change in order to avoid action by the EC. The accounting in countries other than those that are part of the EC was also impacted by the change, but this fact apparently had no bearing on the decision of the IASB, which yielded to the EC. This is one illustration of how the IASB cannot be free of political influence of a particular group of countries.

An accounting standard setting organization should be accountable to regulators and also to the legislatures, or other governmental bodies, from which regulators draw their authority. The EC's action to influence the IASB is not an unusual action. The U.S. Congress has, in the past, suggested that standards set in the United States be changed to conform to the intentions of Congress. Situations where a governing body believes that standards should be changed to meet a national interest are to be expected. The likelihood that the Monitoring Group suggested by the IASB would be able to withstand such requests for change may be remote. It is not in the best interest of U.S. issuers to have to yield to the needs of foreign governments.

NASBA believes that it is not in the best interest of U.S. financial reporting to relax the influence over the accounting standard setting process that the Commission presently exercises, nor to have the Commission placed in a position that it would have to consider yielding to the consensus decisions of a Monitoring Group. We also believe the public would not be served by a voluntary action by the SEC that would dilute its regulatory influence and impact on U.S.

issuers. Accordingly, the Commission should not designate the IASB as a standard setting organization for U.S. issuers.

Need for Enforceable Standards

We are also concerned that adoption of IFRS would weaken regulation and enforcement of standards. Regulators, the SEC and State Boards included, would be required to become more subjective in their determination as to whether or not standards were appropriately applied in a given situation because IFRS are significantly more flexible and lack the implementation guidance of U.S. GAAP.

Standards may become less enforceable in the United States because of their inherent flexibility, which would not be in the public interest. Also, it is possible that the judiciary would hold U.S. issuers to bright line standards in order to promote uniformity, resulting in financial reporting being set in adversary legal processes rather than consideration of the needs of users.

NASBA strongly recommends that the Commission continue to support the process of convergence of standards by the FASB and the IASB as the way to implement the internationalization of accounting reporting standards, and neither require nor permit U.S. issuers to use IFRS in reports to the Commission.

Training

Adverse consequences would result from having two standard setters, one for U.S. issuers and one for non-issuers. Accountants, owners, managers, directors, investors, bankers and others would have to obtain training in the application of IFRS and would have to become familiar with the differences between IFRS and non-issuer standards, currently U.S. GAAP. Accounting firms with an international presence would likely import accountants from their overseas offices or affiliates to train U.S. employees and to perform work in the U.S. Firms without such resources, which include many medium and small-size firms, would have to rely on other sources for training, at considerable expense. Other firms would determine that they were not able to maintain competence in two standards and would elect to serve only clients that used standards for non-issuers, which would result in further concentration of auditing and other accounting services in the remaining firms that have expertise in IFRS.

Client companies that do not have IFRS expertise on staff would have to hire individuals other than their auditors to train their staff in IFRS, at significant expense. Investors, financial analysts, bankers and others would have to be trained by individuals familiar with IFRS or have to rely on continuing education courses, a burden for all.

In addition, accounting majors would have to decide early in their accounting education whether they want to work for a firm that audits U.S. issuers or one that audits non-issuers because available class time limits the hours addressed to learning reporting standards. Further, the decision would impact the available positions for which each student would be employable at graduation—and subsequently in a career without substantial re-education.

Final Recommendations

NASBA recommends to the Commission that the Roadmap be withdrawn due to the concerns previously discussed. To eliminate uncertainty for the U.S. issuers, investors, creditors and other members of the public, NASBA also recommends that the Commission's withdrawal take place as early as possible.

NASBA urges the Commission to continue its support of the joint efforts of the IASB and the FASB to converge standards, to the extent possible, as they work to their target completion date of 2011.

We appreciate the opportunity to comment on the "Roadmap For The Potential Use Of Financial Statements Prepared In Accordance With International Financial Reporting Standards By U.S. Issuers."

Sincerely,

Thomas J. Sadler

Thomas J. Sadler, CPA
NASBA Chair

David A. Costello

David A. Costello, CPA
NASBA President & CEO