



California
Society
Certified
Public
Accountants

Florence E. Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-27-08

**ROADMAP FOR THE POTENTIAL USE OF FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL REPORTING
STANDARDS BY U.S. ISSUERS**

The Accounting Principles and Auditing Standards Committee (the AP&AS "Committee") of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Securities and Exchange Commission (the "SEC" or "Commission") on this proposed rule (the "proposal").

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

The Committee responded to each of the Requests for Comment under section III. on page 48 of the proposal; questions were abbreviated rather than repeated. Responses to other Requests for Comment are not referenced to specific questions, but are placed under the title of the section to which the Request for Comment relates.

III. A PROPOSED ROADMAP TO IFRS REPORTING BY U.S. ISSUERS

1. **Benefit:** The Committee agrees that U.S. investors, U.S. issuers and U.S. markets would benefit from the development and use of a single set of globally accepted accounting standards. It further believes that IFRS as issued by the IASB should be used as the single set of globally accepted accounting standards; they have gained acceptance in the international community and it is very unlikely that any other globally accepted accounting standards will emerge in the foreseeable future.

2. **Milestones:** The Committee believes that the Commission should come to a conclusion that IFRS financial statements can be used by all U.S. issuers before any U.S. issuers use IFRS in their filings with the Commission, and that once any U.S. issuers are permitted to use IFRS in their filings with the Commission, all U.S. issuers should be permitted to use IFRS in their filings. Deadlines are needed by which use of IFRS should be mandated, and the Committee does not take exception to the deadlines proposed.

Underlying the Committee's belief on milestones is a belief that adoption of IFRS financial statements by a U.S. issuer in filings with the Commission should be irreversible, and reversion to U.S. GAAP should not be an alternative under any circumstances.

The Committee further observes that by permitting foreign issuers to use IFRS financial statements in their filings with the Commission, the Commission has already concluded that IFRS financial statements are acceptable to the Commission. It is hard to reconcile the

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acceptability of the use of IFRS financial statements in filings by foreign issuers with questions as to the acceptability of IFRS financial statements for U.S. issuers.

3. Timing: The Committee does not take exception to the timing proposed in the milestones, as long as they are deadlines by which IFRS reporting be implemented, and not the date on which it is implemented.

The Commission should make a determination whether to require the use of IFRS by all U.S. issuers before any U.S. issuers are permitted to use IFRS in filings with the Commission. The Commission should therefore make its determination before 2011 if the proposed deadlines are maintained.

4. Transition: The Committee does not take exception to the timing proposed for the mandated use of IFRS. As pointed out earlier, issuers should be permitted to use IFRS financial statements before the mandated dates.

5. Effect on convergence: Since the ultimate effect of convergence will be a single set of globally accepted accounting standards, the effect of any use of IFRS financial statements in filings with the Commission is a step towards convergence, and so the effect on convergence is considered beneficial. However, if the Commission were to permit some U.S. issuers to use IFRS in their filings, and then reverse itself and require use of U.S. GAAP, the effect on convergence could be very adverse, not to mention the heinous impact on the issuers that had switched to IFRS and then have to switch back to U.S. GAAP.

6. Exclusion of investment companies and other regulated entities: The Committee sees no basis for any permanent exclusion of investment companies and other regulated entities from the adoption of IFRS reporting, so they should be included in the transition. If the Commission believes it needs data not required by IFRS, it has the ability to require it supplementally.

7. Effect on market participants: The Committee believes that all preparers and users of financial data, including those not generally considered market participants, will be affected when IFRS financial statements are used in filings with the Commission. Aside from the transition itself, preparers, users and educators will need to be educated in IFRS, and we believe non-issuers will face pressure to adopt IFRS financial reporting. Governmental and regulatory bodies and others receiving financial data will be affected as well.

One major issue which the Roadmap does not deal with is its effect on non-issuers. The U.S. capital market is accessed by many more entities than SEC registrants. Any entity raising private equity, bank debt, etc., is accessing the U.S. capital market, and having IFRS financial reporting for SEC entities accessing the U.S. capital market and something other than IFRS for others accessing the U.S. capital market could be very inefficient – something akin to IFRS and U.S. GAAP co-existing today in the global capital market. The Committee believes that the long-term solution is to replace U.S. GAAP with IFRS. The Commission should be very sensitive to this, and be certain that the FASB is disposed to adopt IFRS as US GAAP; if the FASB is not disposed to adopt IFRS as U.S. GAAP, the Commission should consider stopping any further use of IFRS in filings with the Commission until the matter is resolved.

Adoption of IFRS has far reaching implications beyond SEC filers. A vehicle for identifying and dealing with these implications may be a “joint commission” of interested

parties to understand and deal with the implications of IFRS. The FASB or AICPA could take leadership in this; it is not *per se* an SEC issue, but if the government, in the *persona* of the SEC, adopts IFRS, the government should be very mindful of the effect on the rest of the country. Participants would include the SEC, FASB, PCAOB, AICPA, IRS, state tax regulators, audit firms, preparers (e.g., FEI), analysts, educators, and probably others; work would likely require a series of task forces to deal with specific issues.

8. Auditing: The Committee believes that the adoption of IFRS financial reporting for U.S. issuers will likely have an effect similar to the adoption of any new complex accounting standard. It notes that the analysis in section III.B of the proposal identifies the specific issues well.

9. IASB's and FASB' joint work plan: It appears to the Committee that the joint work plan will serve to promote a single set of high-quality globally accepted accounting standards.

The Committee anticipates that even with the completion of the joint work plan in 2011, there will be differences between the two sets of standards. The Commission should be prepared to accept this unless the differences are substantive.

10. Impact of expected progress on the IASB's and FASB' joint work plan: The implicit timeline should afford market participants the opportunity to get educated on IFRS and consider its effects on financial data. It might be helpful for the Commission to identify areas where it believes guidance is necessary, as long as that help does not dilute the two standard setters' work on achieving the objective of the joint work plan.

11. Evaluation of work under the joint work plan: The Commission has stated that it would consider whether the accounting standards under IFRS are of high quality and sufficiently comprehensive. The Committee believes this is appropriate. Going forward, the Committee believes the Commission should consider, among other things, future joint work plans of the standard setters, independence of the IASB, IASB's due process, and IASB's plans and ability to react to changes in the business environment that require consideration of new accounting standards and/ or reconsideration of existing standards.

The Committee observes that the creation of accounting standards that are high quality and sufficiently comprehensive is a function of the process under which they are created, and if the process is acceptable, the standards should be considered acceptable. Individual countries, including the U.S., may find certain standards distasteful, but failure to follow one set of IFRS, that issued by the IASB, will undermine the objective of a single set of globally accepted accounting standards.

12. IASB governance and funding: The steps described in section III.A.2. of the proposal seem reasonable to the Committee.

It may not be feasible to reach an entirely satisfactory solution to how the IASC is funded because the funding is ultimately voluntary. Consideration should be given to whether there is any international body that could mandate participation in funding the IASB as part of the conditions for participation in the body's program.

13. Readiness of participants to transition to IFRS: See comment no. 7 above concerning creation of a joint commission. Specific factors should readily emerge from such effort.

14. Other considerations on whether IFRS is sufficiently comprehensive: The Committee observes that the voids in the scope of U.S. GAAP have long been identified, and detailed comparisons of the scope of IFRS vs. U.S. GAAP have been done, so all significant new issues should already be identified.

The Commission is well aware that IFRS are far less detailed than U.S. GAAP. The Commission must be ready to accept that judgments made in good faith by issuers and their auditors in implementing IFRS must be acceptable to the Commission, even if the conclusion differs from what the Commission might prefer.

15. Absence of standards under IFRS: Where a standard is absent under IFRS and management must develop and apply an accounting policy (such as described in IAS 8) the Commission should require issuers to provide supplemental disclosures of the accounting policies they have elected and applied, to the extent such disclosures have not been included in the financial statements.

The Committee believes that disclosure beyond specific requirements of IFRS is appropriate for SEC filers, and disclosures in addition to GAAP requirements have long been required by the Commission. But, the additional disclosure requirements should apply to all SEC filers, not just U.S. issuers.

IV. PROPOSAL FOR THE LIMITED EARLY USE OF IFRS WHERE THIS WOULD ENHANCE COMPARABILITY FOR U.S. INVESTORS (Requests 16 through 28)

As stated above, the Committee believes that the Commission should come to a conclusion that IFRS financial statements can be used by all U.S. issuers before any U.S. issuers may use IFRS in their filings with the Commission, and that once any U.S. issuers are permitted to use IFRS in their filings with the Commission, all U.S. issuers should be permitted to use IFRS in their filings. Thus, the "limited early use" option is not necessary and should be eliminated.

Therefore, the Committee does not agree with the Commission's proposal that only certain U.S. issuers be permitted to report using IFRS prior to 2011. Early reporting should be permitted for all issuers, but only after the Commission concludes that IFRS financial statements may be used by all U.S. issuers.

The Commission states that allowing the early limited use of IFRS by U.S. issuers "may help inform the decision whether to mandate the use of IFRS for U.S. public issuers." The Committee suggests that the Commission examine experience of using IFRS in other countries and also with foreign private issuers filing with the SEC using IFRS. This might provide sufficient information to use in coming to a conclusion on use of IFRS financial reporting by U.S. issuers.

If the Commission decides to permit limited early use of IFRS, the Committee recommends that the eligibility process be simplified. The Committee finds the Commission's proposals complex and potentially burdensome, and places the Commission in a position of limiting the adoption of IFRS, which seems counterproductive once the Commission concludes that IFRS financial statements may be used by U.S. issuers. Further, the mechanics of determining eligibility can be complex, especially when using potentially incomplete financial data from foreign sources, and the "letter of no objection" could become a cumbersome procedure. It appears from the proposal that the Commission has done

significant analysis of what entities might be eligible; if the Commission is trying to encourage early adoption of IFRS reporting, why not just publish the list of issuers from which it would accept IFRS financial data, and deal with any others that wish to adopt IFRS financial reporting through the no objection letter process.

As stated above, the Committee believes that adoption by IFRS financial statements by a U.S. issuer in filings with the Commission should be irreversible, and reversion to U.S. GAAP should not be an alternative under any circumstances.

IV. C. Transition (Requests 29 through 33)

The Committee agrees with the Commission's proposal to limit the first filing with IFRS financial data to an annual report on Form 10-K, and that it contain three years of audited IFRS financial statements. However, if the earlier years would involve restatement of previously filed U.S. GAAP financial statements and restatement is not practicable, an exception to permit filing of U.S. GAAP financial statements for the one or two earlier years that cannot be restated should be permitted.

IV. D. Alternative Proposals for U.S. GAAP Information (Requests 34 through 45)

The Committee believes Proposal A should be followed, and finds Proposal B objectionable.

If the Commission is going to support use of IFRS, it should permit its adoption as set forth in the applicable standard, which is Proposal A.

Proposal B would require maintenance of U.S. GAAP records for an indefinite time into the future; at a minimum, the Commission should specify when the proposed disclosures would cease to be required. This dual recordkeeping would be an unnecessary and potentially large expense for no discernable value. The Commission does offer that it would facilitate reversion from IFRS to U.S. GAAP, but the Committee believes that such reversion should never occur, and the Commission should make a determination whether to require use of IFRS by U.S. issuers before any U.S. issuers are permitted to use IFRS in filings with the Commission.

Comparability among IFRS adopters and non-IFRS adopters may be a concern. The Committee suggests that once the Commission mandates a future change to IFRS financial reporting by U.S. issuers, all U.S. issuers should be required to disclose, as part of the Management's Discussion and Analysis, the future change, the date by which it must change and the date it expects to change, if earlier, description of the change, and to the extent available, the approximate effect of the change on its financial data, and any other significant effects, such as compliance with financial covenants in debt instruments. Issuers should be actively considering this information as part of their planning to adopt IFRS, so the work required for the disclosures should be far less burdensome than the work to maintain U.S. GAAP information after adoption of IFRS.

V. DISCUSSION OF PROPOSED AMENDMENTS

V. A. The Use of IFRS Financial Statements in Commission Filings by Eligible Issuers (Requests 46 through 48)

The proposals are clear, but the distinction between “IFRS issuer” and “foreign private issuer” is unnecessary if the Commission follows the Committee’s recommendation and eliminates the “limited early use” option.

V. B. Application

V. B. 1. Application of Regulation S-X (Requests 49 through 51)

The Committee has no specific comments.

The Commission will need to address any potential inconsistencies between IFRS and SEC disclosure requirements, such as Industry Guide 2 for oil and gas producing activities.

V. B. 2. Proposed Clarifying Amendments with Respect to References to IFRS as Issued by the IASB (Requests 52 through 54)

The proposed amendments are adequate. The Commission should recognize that eventually regulations will have to be amended to replace references to U.S. GAAP and U.S. GAAP pronouncements with references to IFRS as issued by the IASB and specific IFRS pronouncements as applicable.

V. D. Related Disclosure and Financial Reporting Issues

V. D. 1. Selected Financial Data Request 55)

The Committee believes that three years of selected financial data based on IFRS should be sufficient for investors. However, IFRS issuers should have the option of presenting financial data for the previous two years on a U.S. GAAP basis, clearly labeled as such, if they think it is meaningful.

V. D. 2. Market-Risk and the Safe Harbor Provisions (Request 56)

The Committee believes that the safe harbor provisions, at a minimum, need to be clarified. Section 27A of the Securities Act and Section 21E of the Exchange Act exclude from the safe harbor any information “included in a financial statement prepared in accordance with generally accepted accounting principles.” It is unclear whether “generally accepted accounting principles” include IFRS, making it unclear whether forward looking information included in IFRS financial statements would be included or excluded from the safe harbor under the statutes.

In addition, the Committee recommends that the Commission provide a safe harbor for any forward looking information included in IFRS financial statements.

V. D. 3. Disclosure of First-Time Adoption of IFRS in Form 10-K (Requests 57 and 58)

The Committee believes that the proposed disclosure in Form 10-K is sufficient in prominence and content to indicate to investors that the issuer has changed its basis of financial reporting from that used in previous filings.

If the Commission adopts the proposed "limited early use" option, the Committee does not agree that issuers should be required to reference the letter of no objection in their first IFRS filing. If the issuer is filing using IFRS, it is reasonable to assume that the issuer is eligible and has received the letter, so the disclosure is meaningless.

The Committee does not believe that the Commission should amend Form 8-K to require "forward-looking" disclosure relating to an issuer's consideration of whether it will file IFRS financial statements in the future. Rather, the Committee suggests, as stated above, that once the Commission mandates a change to IFRS financial reporting by U.S. issuers, all U.S. issuers should be required to disclose, as part of the Management's Discussion and Analysis, the future change, the date by which it must change and the date it expects to change, if earlier, description of the change, and, to the extent available, the approximate effect of the change on its financial data, and any other significant effects, such as compliance with financial covenants in debt instruments.

V. D. 4. Other Considerations Relating to IFRS and U.S. GAAP Guidance (Request 59)

The Committee agrees with the Commission's observation that U.S. issuers, in applying IAS 8 may look to guidance from various Commission sources, and further believes that U.S. GAAP may provide guidance as well.

However, the Committee believes that, in time, application of IAS 8 in areas where there are no IFRS Standards or Interpretations may diverge from guidance in those U.S. sources. This can be expected because IFRS are international and non-U.S. companies' (issuers and non-issuers) reference points for making judgments in developing and applying accounting policies may differ from those of U.S. issuers. Non-U.S. companies will have far more experience in applying IFRS by the time IFRS achieves broad use in the U.S., and U.S. companies inevitably will look to practice under IFRS outside the U.S. in making judgments in developing and applying accounting policies.

U.S. GAAP may eventually reach a "sunset" when IFRS achieves general acceptance in the U.S. The Committee recommends that, once the Commission mandates use of IFRS by U.S. issuers, the Commission undertake to review its accounting guidance on a regular basis and "sunset" guidance that is no longer relevant under IFRS.

V. E. Financial Statements of Other Entities under Regulation S-X and V. F. Pro Forma Financial Statements Provided under Article 11 and V.G. Industry Specific Matters (Requests 60 through 63)

The Committee makes no comment on these matters.

V. H. Application of the Proposed Amendments to Other Forms, Rules and Schedules (Requests 64 and 65)

The Committee believes that an issuer to which proposed Article 13 of Regulation S-X would not apply should be able to use financial statements prepared in accordance with IFRS as issued by the IASB in exempt offers or sales of securities, if the issuer has adopted IFRS in its primary financial statements. The affected issuers would not be registrants. It is unclear why it makes any sense to, in effect, require conversion from IFRS to U.S. GAAP in this situation.

The Committee makes no other comment on these matters.

**VI. GENERAL REQUEST FOR COMMENTS and VIII. COST-BENEFIT ANALYSIS
and X. CONSIDERATION OF IMPACT ON THE ECONOMY, BURDEN ON
COMPETITION AND PROMOTION OF EFFICIENCY, COMPETITION AND
CAPITAL FORMATION (Requests 66 through 70)**

The Committee makes no comment on these matters.

Very truly yours,

A handwritten signature in black ink, appearing to read 'M. Wille', with a long horizontal flourish extending to the right.

Mark F. Wille, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants