# SUMMARY OF COMMENTS

## Work Plan for the Consideration of Incorporating International Financial Accounting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation

**Staff Paper – May 26, 2011**


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## Introduction

On May 26, 2011, the staff of the Office of the Chief Accountant of the U.S. Securities and Exchange Commission ("Staff") published a staff paper discussing one possible framework for the potential incorporation of International Financial Reporting Standards ("IFRS") into the U.S. financial reporting system.[1] That framework combined aspects of more well-known approaches to incorporation—convergence and endorsement—and the Staff Paper requested public comment on it.[2]

A significant volume of comments was received on the Staff Paper.[3] Commenters were generally supportive of the key premises of the Staff Paper Framework: the incorporation of IFRS through a gradual, phased transition that retains the Financial Accounting Standards Board ("FASB") as the U.S. standard-setting body and retains U.S. GAAP as a separate body of accounting standards. However, the support varied in its intensity: commenters expressed numerous opinions on ways in which the framework could be improved, and many commenters' support was contingent on the occurrence of certain other actions. For example, a frequent contingency was the completion of the projects subject to the Memorandum of Understanding ("MOU") between the FASB and the International Accounting Standards Board ("IASB"). There was also a fair amount of comment on what the FASB's role should be under a Staff Paper Framework approach (i.e., greater or less than described in the framework), and the timeframe for incorporating existing IFRS (i.e., faster or slower than described in the framework). While commenters were generally supportive overall of the Staff Paper Framework, there were certain commenters that were opposed, primarily raising concerns about the quality of IFRS and the effect on the U.S. financial reporting system.

The comment summary below first sets out the broad outlines of commenters' views, ranging from support for convergence to rejection of any incorporation of IFRS. The summary then reviews commenters' responses to the various specific aspects of the Staff Paper Framework.

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1 Work Plan for the Consideration of Incorporating International Financial Accounting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation—a Staff Paper (May 26, 2011) ("Staff Paper").

2 Given the need to differentiate it from other frameworks mentioned by commenters, the framework proposed in the Staff Paper will be referred to as the "Staff Paper Framework" throughout this document.

3 Commenters are listed at Appendix A. 123 commenters submitted letters: 60 companies, 9 individuals, 9 CPA firms, 7 users, 3 governmental entities, and 36 associations representing various interests.

## I. Comments on Overall Framework for Incorporation of IFRS

### A. Endorsement of New Standards + Incorporation of Existing Standards

A majority of commenters (71 of 123) [4] supported a process for the mandatory incorporation of IFRS into the U.S. financial reporting system that would involve giving the FASB a role in endorsing new or revised IASB standards going forward, paired with some form of incorporation of existing IASB standards into the body of U.S. GAAP.[5] These commenters differed, however, in their preferred approach to the incorporation of existing IASB standards: some preferred the phased approach outlined in the Staff Paper, while others preferred to have these standards take effect on a future date certain (sometimes called a "big bang" approach for incorporating existing IASB standards).

#### 1. Endorsement + Phased

Fifty-five commenters supported a framework for incorporation of IFRS that involves FASB endorsement of new or revised IASB standards and a gradual or phased approach to the incorporation of the existing body of IFRS, which was the approach laid out in the Staff Paper.[6]

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[4] Totals in the text for each section indicate levels of primary support; totals for lesser levels of support are included in the footnotes. For example, one common pattern was an assertion that it is premature to be considering incorporation of IFRS; but if the Commission does it, then the Staff Paper Framework seems to be the best approach, with varying levels of comments on how to modify the Staff Paper Framework. A comment of this nature is tabulated in this comment summary as primary support for IFRS premature (Section II.D.1) and secondary support for endorsement + phased approach (Section II.A.1). Comments exist on a continuum, and some subjectivity is involved in determining where, for example, an objection is sufficiently significant to rise to the level of indicating a lack of support.

[5] AAR; ACCA; ADM; AFP; AIA; AICPA; Alcoa; Allstate; Ameriprise; BD; Blackstone; CalCPA; CalPERS; CAQ; Cisco; Citi; CN; CNA; CP; Crowe; CSX; Dell; Deloitte; Exxon; FAF; FedEx; FEI; FERC; FHFA; FHLB; FirstEnergy; GE; GM; Goodyear; GT; HP; IBM; ICBA; IIF; ILCPA; IMA; KeyCorp; KPMG; Lilly; Mazars; MBA; McDonald's; McGladrey; Microsoft; MS; Navistar; NextEra; NS; NYSSCPA; OHCPA; PCI; PPL; MBC; S&P; SanDisk; SIFMA; TDS; TEI; TransCanada; UPC; URS; Verizon; VSCPA; Williams; WSIB; Zimmer.

[6] The following commenters preferred an endorsement + phased approach: AAR; AFP; AIA; Ameriprise; Blackstone (endorsement to follow phased); Cisco; Citi; CN; CNA; CP; Crowe (although noting it will not achieve the goal of a single set of high-quality accounting standards); CSX; Dell; Exxon (assuming the Commission decides to pursue IFRS after completion of the Work Plan); FAF (FASB would refrain from separately engaging in standard setting on new technical projects added to the IASB's agenda, and would develop a process to address substantial differences that remain between U.S. GAAP and IFRS as it moves toward international standards becoming the basis of U.S. GAAP) ; FedEx; FEI; FERC; FHFA; FHLB; FirstEnergy; GE (noting consistency with its 2009 "modular approach" comment letter); GM (provided the SEC maintains a strong U.S. standard-setting presence and actively monitors implementation); HP; ICBA; IIF (if every effort is made to avoid a U.S. flavor); ILCPA (assuming, arguendo, IFRS should be incorporated); IMA (significant improvement over alternatives and mitigates risks); KeyCorp; KPMG; Lilly (assuming Category 2 standards are converged rather than endorsed); McDonald's (as IFRS not higher quality than U.S. GAAP, a gradual approach is better); McGladrey ("most practical approach presented to date"); Microsoft; MS (but requesting big bang effective date on MOU projects); Navistar; NextEra; NS; NYSSCPA ("in principle"); OHCPA; Ontario; PCI (supporting gradual incorporation); PPL; MBC; SanDisk (supporting any phased transition—"either way may be a painful experience, but taking a band-aid off quickly and too soon may lead to

[Footnote continued on next page.]

Commenters specifically asserted a number of different bases for their decision to support the Staff Paper Framework: it moves public companies toward a single set of high-quality global accounting standards;[7] it manages the costs of incorporating IFRS relative to its benefits, including through using a company's regular change management process, through spreading costs out over long periods of time, and through eliminating retrospective application;[8] it ensures a continued U.S. voice in the standard-setting process, for the protection of U.S. investors and U.S. interests;[9] it gives the FASB a continued role in the development of high-quality accounting standards;[10] it permits the FASB and the SEC to provide guidance on the more principle-based accounting requirements of IFRS;[11] it allows for retention of industry-specific accounting where the FASB determines it to be appropriate;[12] it minimizes concerns over compliance with regulatory and contractual obligations that are based on U.S. GAAP;[13] and it allows the capital markets to absorb and adapt to reporting changes with least disruption.[14]

Although some commenters expressed strong support for this alternative, others expressed more cautious or conditional support. Two issues that were raised with relative frequency were (1) the successful completion of the existing MOU projects, discussed further in Section II.A below, and (2) whether to complement the endorsement + phased mandatory approach with an alternative, optional form of incorporation, discussed further in Section I.E below.

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future problems…"); SIFMA; TDS; TEI; TransCanada; UPC; URS; Verizon; VSCPA; Williams; Zimmer. In addition, 17 commenters listed the endorsement + phased approach as a secondary preference: ABA; AGA; Alcoa; API; Barnard; CalCPA; CBA; Chevron; CMS; Cohn; CSBS; Duke; Hewitt; IBM; ICI (assuming that investment companies are not excluded); MSCPA; NYSBD. Finally, five commenters ackowledged the endorsement + phased approach as a preference in the event that the Commission is not swayed by the primary and secondary positions set forth in their respective letters: Pfizer; Praxair; Progress; UBS; Zions.

7 AAR; CN; FAF; FedEx; IMA; Microsoft; NS; MBC; UPC; URS (decrease diversity while reducing risks).

8 AAR; Chevron (cost savings over a big bang approach); Citi (orderly implementation in rational, systematic way); FAF; FedEx; FEI; GM; ILCPA; IMA; KeyCorp; McDonald's; Microsoft (particularly with respect to Category 3, where there are a number of significant changes that could be required and would minimize costs); Navistar; NS; NYSSCPA; PPL; TDS; TransCanada; UPC; URS; Verizon; VSCPA; Zimmer. Cf. FERC (noting that costs associated with convergence in its industry would be passed to consumers and that, particularly in light of the current economic environment, any method should be one of the least costly alternatives because costs will be passed onto customers). See also "5 to 7" and "Prospective v. Retrospective" sections below.

9 FAF; GE; IMA; KeyCorp; Lilly ("U.S. has unique challenges . . . such as legal, compliance (e.g., Sarbanes-Oxley) or regulatory environment"); McDonald's; MS; MSCPA; Navistar (protect U.S. sovereignty); NYSSCPA; PPL; MBC; TransCanada; URS. See also FASB section below.

10 FAF; FedEx; McDonald's; MS; NextEra. See also FASB section below.

11 FAF; NextEra; NYSSCPA. See also FASB section below.

12 ICI; NextEra; McDonald's. See also FASB section below.

13 FAF; KeyCorp; McDonald's; NextEra; NYSSCPA; Verizon. See also U.S. GAAP section below.

14 Chevron; GE; NYSSCPA.

### 2. Endorsement + Big Bang

Fifteen commenters also supported a paired approach to the incorporation of IFRS, but preferred that the incorporation of the existing body of IFRS take place at a date certain.[15] The pros and cons of this approach are discussed in Section II.E below.

### 3. Endorsement + Either

Two commenters supported the paired approach but did not express a strong preference as to the method for incorporating existing standards, preferring to leave it to the FASB to determine.[16]

## B. No Endorsement + Incorporation of IFRS

Eighteen commenters did not support a framework that involved the FASB's endorsement of IFRS; these commenters split into two very different groups. The first group supports the status quo: the FASB would retain its existing standard-setting authority and would engage in continued convergence efforts with the IASB. The second group advocates a departure from the status quo through the full incorporation of IFRS directly into the U.S. financial reporting system without any mediation through the FASB.

### 1. Continued Convergence

Eleven commenters supported continuation of the convergence efforts of the FASB and the IASB over the method described in the Staff Paper.[17] These commenters felt that continued convergence allows for a longer timeline, which would reduce the cost burden that would accompany the transition to IFRS, and would ensure that each standard is thoroughly examined.[18] Commenters further felt that the SEC and the FASB should not be constrained by

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[15] The following commenters preferred an endorsement + big bang approach: ACCA; ADM; AICPA; Alcoa; Allstate; BD; CalCPA; CalPERS; Goodyear; GT; IBM; Mazars; MBA; S&P; WSIB. In addition, three commenters listed the endorsement + big bang approach as a secondary preference: CFA; Ford; UBS.

[16] CAQ; Deloitte.

[17] The following commenters preferred a continued convergence approach: CSBS; Duke; Emerson; Endurance; Hess; Intel (asserts that in countries where it does business that has adopted a local IFRS, differences from that of the IASB raise the cost of conversion and ongoing maintenance without providing the benefit of transparency and comparability, and suspects costs are greater than benefits here as well; also asserts that its cost models indicate a 50-60% reduction in conversion costs with continued convergence as opposed to date certain adoption); McKesson (prioritize eliminating significant differences; publicize timeline; continue due process); NASBA; NYSBD; Praxair; Southern. In addition, two commenters listed the continued convergence approach as a secondary preference: Constellation; Progress. Finally, one commenter described continued convergence as analternative to more favored preferences: Hewitt (discussing an "evergreen" MOU between the FASB and the IASB to add projects as current ones are completed).

[18] CSBS (need not work under arbitrarily tight timeframe; work should be patient and responsible); Endurance; Intel; NASBA (convergence is a "long-term proposition that should not be rushed"); NYSBD (same as CSBS).

IASB deadlines,[19] and raised more overarching concerns regarding the quality of IFRS compared to U.S. GAAP,[20] especially when scrutinized by the SEC and PCAOB.[21] One commenter felt that FASB must continue as a "strong, vibrant, and effective standard setter" and that any endorsement approach would "significantly weaken the standard-setting ability of the FASB and the ability for the FASB to influence standards set by the IASB."[22]

However, other commenters criticized the continued convergence approach, noting that it would be impracticable: the U.S. cannot expect forever to have a special role in developing IFRS jointly with the IASB, and the MOU process is already starting to unravel with the Boards reaching seemingly intractable differences.[23]

### 2. Absolute Incorporation

Seven commenters supported a rapid incorporation of the full body of IFRS standards without any standard-setting role for the FASB.[24] These commenters noted that retaining the FASB could have several negative effects, including introducing differences between U.S. GAAP and IFRS, undermining the legitimacy of the IASB, reducing U.S. constituents' incentives to participate in the IASB standard-setting process, and generally adding complexity to the process.[25] A gradual transition would also impose costs, including disruption of business and investment operations, as opposed to benefits that can be achieved through implementing a single, end-to-end approach to transition.[26] Two foreign commenters with experience in implementing IFRS through a "big bang" approach asserted that mandatory transition as of a specific date, while challenging, could be successful.[27]

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19 CSBS ("If the IASB shuts the FASB, SEC, or other American representation out of the global standard-setting process, the SEC will have to reconsider U.S. involvement with IFRS."); Endurance; NYSBD (same as CSBS).

20 Emerson (U.S. GAAP superior, no demand for IFRS, converge MOU and Category 2 over 10 to 15 years).

21 Southern.

22 NASBA (asserting that this "weak and untenable position" would make it difficult for FASB to attract talent, to influence IASB's standard-setting, and would result in transfer of responsibility for protecting U.S. public interest to the IASB, which is "unacceptable").

23 BNY; IMA. See also Deloitte (FASB and IASB should cease work on the inactive MOU projects once the active ones are done).

24 Ball; Barnard (noting that Staff Paper Framework has "strong advantage[s]" but is not "optimal"); BNY; CBA; HSBC; ICAEW; UBS (acknowledging that endorsement may be required for regulatory purposes, but disapproving of the EU model).

25 Ball; BNY.

26 Ball; Barnard (incorporation on Jan. 1, 2016; reduces risks of "transition-slippage," inconsistent accounting during transition, and provides sufficient time for parties to prepare); CBA; HSBC; ICAEW.

27 CBA (noting a single undertaking, with coordinated project management, resulted in benefits and opportunities, including opportunity to improve financial accounting and reporting overall through greater knowledge at staff level); ICAEW (EU experience shows big bang causes little if any market disruption and has a generally positive outcome; also noting that UK was attempting to converge its private company accounting standards with IFRS—an effort that, after significant complications, time, and expense, may be abandoned for a single date-certain transition to IFRS).

## C. Other Options For Mandatory IFRS Incorporation

Eight commenters sought a different approach to the incorporation of IFRS into the U.S. financial reporting system:

- One commenter advocated for an approach where (1) companies would have an IFRS Option and (2) FASB would assist the IASB in setting standards but would not separately endorse IFRS standards into the U.S. market.[28]

- One commenter asserted that the SEC should wait until the completion of the MOU process, and then determine which of a menu of 4 options it should take: (1) continued convergence with a new MOU; (2) endorsement under the Staff Paper Framework; (3) something else; or (4) abandon IFRS.[29]

- One commenter sought to have full incorporation of IFRS into the U.S. financial reporting system, but also to have U.S. GAAP continue to exist as an independent set of standards.[30]

- One commenter supported a framework that would involve the SEC taking over most of the duties that the Staff Paper envisioned would belong to the FASB.[31]

- One commenter sought to continue the improve-and-adopt model, but permit FASB to adopt/endorse individual IFRS where they "meaningfully improve the quality of U.S. financial reporting," and permit FASB to develop a transition plan for other standards, but put such plan on hold for now.[32]

- Three commenters advocated for graduated mandatory adoption dates based on an entity's filing status, similar to the Sarbanes-Oxley 404(b) adoption process.[33]

Three commenters addressed specific issues in the Staff Paper but did not take a position on the overall question of mandatory incorporation of IFRS:

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[28] Aflac (noting that, while Staff Paper Framework was a "step in the right direction," it would create a "very long" transition period that "does not end with one set of IFRS compliant financial statements"—meaning that companies would still be required to keep two sets of books).

[29] AGA (citing the need to see whether, under the MOU, issues can be worked out quickly (pointing towards endorsement in the future) or whether they more difficult (pointing toward the need for further time and work to lay groundwork for full incorporation)).

[30] Debuque (not specifying who would be required/permitted to use which set of standards).

[31] Northrop.

[32] PwC (also noting that "sufficient capital market and political support does not currently exist to mandate adoption of IFRS in the US for all domestic public registrants").

[33] Cohn (advocating that the Commission consider a phased approach by category of filer); Ford (seeking an immediate option and for FASB to immediately adopt IASB standards; adoption for others could be phased by company size); Hewitt. In addition, Zions supported a 404(b)-style approach as a secondary position.

- One commenter wrote to argue that the paired approaches described in the Staff Paper are really types of simple convergence—because the "endorsement" aspect of the paired approaches is not a true form of endorsement as in the EU.[34]

- Two commenters concentrated their comments on different narrow issues of particular importance to them.[35]

### D. No Mandatory Incorporation Of IFRS

Twenty-two commenters opposed the potential mandatory incorporation of IFRS, for one of three reasons: mandatory incorporation would be premature; IFRS is not currently suitable for mandatory use in the U.S.; or there are no viable methods of incorporation to achieve the goal of a single set of high-quality global accounting standards.

#### 1. Mandatory Incorporation Would Be Premature

Eleven commenters asserted that there were so many various issues associated with the incorporation of IFRS into the U.S. financial reporting system that had not yet been addressed to their satisfaction that they were unable to offer an opinion on the method of incorporation at this time.[36] Commenters in particular expressed concern that the development of a framework for incorporation is premature in light of the fact that the Commission has not yet determined whether IFRS would be of value for the U.S. and its investing public.[37] Commenters also questioned whether the benefits of incorporating IFRS would justify the costs to preparers.[38]

Some commenters felt that the general state of flux surrounding a number of critical components and prerequisites of the framework, including IASB governance,[39] current standard-setting, etc., and a lack of detail in the Staff Paper made a definitive analysis of the process

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[34] Zeff.

[35] TLIFOC (advocating that whatever method of incorporation the SEC may pursue retain LIFO); TMCC (advocating for an IFRS Option for debt-only issuers that are wholly-owned subsidiaries of foreign issuer).

[36] ABA; CFA; Chamber; Chevron; Ciesielski; CII; CRMC; FIRCA; MSCPA; Pfizer; Sandler.

[37] CFA; CII; CRMC; MSCPA (case that "IFRS is far superior than U.S. [GAAP] at present has not been made"); Pfizer (SEC must determine that IASB standards are sufficiently high-quality and comprehensive, and that the IASB's process is able to produce standards that improve the accuracy and effectiveness of financial reporting, and that users are adequately prepared). Cf. BD (a number of factors identified in the Work Plan as crucial to decision to transition to IFRS are, themselves, affected by the fact that the SEC has not announced a decision to mandate use of IFRS; small entities unlikely to invest in learning about standards that may never apply).

[38] Chevron (pointing to the MOU differences, and citing a $400 million cost to implement just the new standards covered by the MOU—a cost "far greater" than what was envisioned when it articulated support for a single set of standards, calling into question the "entire value proposition of close alignment with, or incorporation of, IFRS"); Ciesielski (also questioning whether it would improperly diminish the SEC's authority to take quick action if necessary, and what projects important to the U.S. market are being left behind while everyone concentrates on incorporation of IFRS); MBA.

[39] Chamber; MBA; PCI; URS (independence and funding problems of IASB as basis of support for proposed role of FASB). See also IASB Governance section below.

proposed in the Staff Paper difficult.[40] One association commenter has a membership-approved list of seven milestones that it asserts must be met before moving forward with an incorporation of IFRS.[41] One commenter supported giving companies an option to elect to use IFRS—just like foreign private issuers ("FPIs")—but opposed a requirement for all issuers to adopt IFRS until three enumerated qualifications were met.[42]

### 2. IFRS Is Not Suitable

Nine commenters asserted that IFRS should not be incorporated into the U.S. financial reporting system at this time.[43] Commenters highlighted that incorporation at the expense of promulgation of high quality accounting standards is not appropriate.[44] One commenter noted that the costs would exceed the benefits, and that proposed incorporation of IFRS into U.S. GAAP prior to convergence would negate the due process that went into the FASB standards—and that resulted in differences between IFRS and U.S. GAAP.[45] Two commenters with operations primarily based in the United States saw no benefits to the incorporation of IFRS.[46] Commenters further asserted that there is no clear demand (from investors) for the U.S. to move to IFRS and that there is a perception that countries choose to adopt IFRS over U.S. GAAP because it is less rigorous and therefore easier to apply.[47] Two commenters questioned whether

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40 Chamber (Categories 2 and 3—with most of the "working infrastructure" of U.S. GAAP—not specified); Chevron; FIRCA (too many moving parts at the Boards); PwC (noting that Staff Paper Framework is a "fair starting point" but that the SEC should continue working with the Boards to determine the best way for a mandatory transition to go forward; while an option may be acceptable, the current MOU, quality of standards, and quality of infrastructure is in too much flux to justify a decision on mandatory adoption at this point).

41 CII (noting specifically that FASB should not be usurped as primary standard-setter for the U.S. until the seven milestones are met—milestones that are supposed to provide assurance that U.S. investors would not be harmed by IASB or IFRS, and that the Commission should fully analyze these milestones before making any decision—and that the attached white paper gives the Commission a good start to that end). Cf. CFA (own list of 10 considerations).

42 ABA (noting three preconditions for a mandatory transition: (1) IFRS must be clearly better—on every standard—than U.S. GAAP; (2) U.S. will still have a process for setting high-quality standards; and (3) the benefits outweigh the costs). According to ABA, precondition 1 is not clear: understanding about IFRS in theory and as applied is lacking, as are interpretations and the impact of adoption; it looks like IFRS may be an improvement for large banks but not for small and medium sized ones.

43 Catanach; CMS; ICI (for investment companies); McMurtry; Miller; PICPA; Progress; Sprenger; Zions. In addition, three commenters expressed this as a secondary position: CRMC; Praxair; Southern.

44 Catanach (IFRS "an elixir for unscrupulous managers"); Southern; Sprenger (noting dominance of U.S. position in developing and implementing standards and questioning why dilution of U.S. GAAP is being considered).

45 PIPCA ("A two-step process whereby companies must first adopt the converged standards, and then transition to full IFRS compliant standards, is an outrageous and costly proposition that demonstrates a failure to achieve the stated goals of convergence.").

46 CMS (no benefits to the company, and unlikely for economy in general); Zions (revenue comes from small and medium businesses, U.S. capital markets will always attract foreign investors, have never had trouble attracting capital before, and the economy is just too fragile to impose this level of costs on people without any promise of a return). Cf. Emerson (estimated $32 million is just too costly, and is mostly a windfall for Big 4 and other consultants); Praxair (even with 60% of sales outside US, still see only costs and no benefits).

47 Praxair; Southern.

any "dilution" of U.S. standards is justified because they are already high-quality and globally accepted.[48]

Several commenters, however, specifically noted that the merits of a single set of high quality globally accepted accounting standards are sound.[49] One commenter noted that abandoning the goal leaves IFRS as a predominantly European-based set of standards, and would reduce or eliminate U.S. influence on the IASB, with a detrimental effect on globalized capital markets, and U.S. investors' participation therein (as they consider foreign investments).[50]

#### 3. Incorporation Of IFRS Is Not Feasible

Two commenters stated that there was no particular method of incorporation that would be able to incorporate IFRS into the U.S. financial reporting system.[51] Commenters noted that it is likely impossible to achieve one truly global set of standards that works for the circumstances of every country.[52] One of the two commenters therefore questioned the cost-benefit reasoning for pursuing further incorporation.[53] The other commenter stated that there is value in continuing efforts to make standards more uniform—but the SEC should not assert that it is heading toward a full incorporation of IFRS.[54]

One association commenter noted that its members had been unable to reach a view as to the best way to get to IFRS, given the magnitude and complexity of the issue.[55]

### E. Optionality

The discussion above describes various commenters' positions on the mandatory incorporation of IFRS into the U.S. financial reporting system—i.e., the default rule. Several commenters also advocated that companies should be given an option to adopt a different approach to the incorporation of IFRS. These fell into three groups:

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48 Praxair; Sprenger. Cf. PwC (noting that others observe that the high quality of U.S. GAAP may cause adoption of IFRS to generate little cost of capital benefits).

49 Barnard; Ford (simplify operations, standardize controls, eliminate barriers to trade flowing from accounting effects, and increase comparability of results to competitors); IIF (IFRS are a high-quality set of international standards developed through proper due process—recognizing that work on important projects is still underway); IMA. In addition, nearly all commenters expressed hortatory support for a single set of standards. See, e.g., AICPA; Cohn; GT; IBM.

50 IMA.

51 API; Constellation.

52 API; Constellation (as countries have the ability to modify IFRSs when endorsing them, the goal of a single set is "difficult, if not impossible, to achieve").

53 API.

54 Constellation.

55 TCHA.

- Thirty-one commenters that supported a paired approach to incorporation (I.A) suggested that some companies could or should be given the option to immediately begin using IFRS as issued by the IASB (I.B.2) or individual IFRS standards.[56] Commenters' detailed views on the "IFRS Option" are discussed further in Section V below.

- One commenter supporting an endorsement + phased approach (I.A.1) sought an option to continue using U.S. GAAP.[57]

- Four commenters opposed a mandatory approach to incorporation but supported giving companies a permanent option to use IFRS as issued by the IASB (I.B.2).[58]

- One commenter supported a mandatory transition to IFRS only for certain issuers (e.g., "global financial institutions") but an optional adoption for all others.[59]

## II. Comments on Details of Staff Paper Framework

As noted above, while a significant number of commenters supported the Staff Paper Framework approach, nearly all articulated changes that they would make. Detailed comments and suggestions on the Staff Paper Framework are set forth below.

### A. Conditions Precedent

Several commenters requested that certain actions be taken before the full incorporation of IFRS into the U.S. financial reporting system—and in some cases before the SEC even makes a decision whether IFRS should be incorporated.

#### 1. MOU

Eighteen commenters expressed concern that the FASB and the IASB were not on track to issue fully converged standards under the MOU process.[60] Driven by this and other concerns,

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[56] ABA; ACCA; ADM; AFP; AICPA; Alcoa; Ameriprise; Blackstone; CalCPA; Citi; Cohn; Deloitte; FEI; FHFA; Ford; Goodyear; Hewitt; HP; IBM; IIF; ILCPA; KPMG; Lilly; MS; NYSSCPA; OHCPA; PCI; Praxair; S&P; SIFMA; UBS. Narrowing this list to companies that primarily support the endorsement + phased approach but that appear interested in potentially using the option themselves yields a list of five: Blackstone (individual "ASUs"); Citi (individual standards); HP (all IFRS), Lilly (all IFRS), and MS (all IFRS).

[57] Williams (noting that its operations and competitors are primarily U.S.-based, and that it therefore did not expect to realize significant benefits from IFRS).

[58] ABA; McMurtry; Praxair; Southern. ABA proposed to revisit the question of mandatory transition once three preconditions were met: (1) IFRS must be clearly better, standard-by-standard, than U.S. GAAP; (2) U.S. retains a process for setting high-quality standards; and (3) benefits outweigh the costs. Praxair and Southern note the superiority of U.S. GAAP, but would allow for continued convergence with IFRS.

[59] PICPA.

[60] ADM; Allstate (asserting also that SEC should do an analysis of whether investors are ready for the transition which would include investor feedback on MOU projects); Ameriprise; BNY; Chamber; Cisco; Constellation (MOU experience is main reason why adoption of true single set of worldwide accounting standards is unlikely;

[Footnote continued on next page.]

nineteen commenters stated that the IASB and FASB needed to complete their MOU projects before any IFRS are incorporated into U.S. GAAP—or even, in some cases, before the SEC determines whether IFRS should be incorporated into U.S. GAAP.[61] Several commenters noted that the lack of unified IASB and FASB standards would complicate transitioning of U.S. financial reporting and that, because this convergence is a prerequisite to the Staff Paper's framework, a failure to converge would raise concerns about the viability of the FASB and IASB working together under the framework as well as whether modifications in the IFRS would, in fact, be rare in the U.S.[62] Six commenters noted that changing to the new FASB MOU standards will already take significant time to implement, before then transitioning again to the IASB standards.[63] Another commenter pointed out that committing before the MOU was done would undermine the IASB's incentive to cooperate with the FASB.[64]

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if U.S. version of IFRS is emerging, then this supports retaining U.S. GAAP and seeking convergence over time as appropriate); CNA (illustrating "practical inability to achieve a single set of global accounting standards"); CRMC ("Convergence is not working. The process is not achieving its objective and it is consuming and diverting significant valuable resources."); Crowe; Deloitte (suggesting that the SEC set expectations for the Boards as they try to work through the MOU); Exxon (in two of four priority MOU projects, Boards reached different results based on the consideration of the same well-reasoned arguments by knowledgeable professionals and the interests of stakeholders); FHLB (noting that the disagreement is supported by U.S. preparers and users); FIRCA; Intel; OHCPA; Pfizer (process is at minimum more difficult than expected; some views seem to be entrenched and "seemingly incapable of being resolved no matter how generous the time-line"); PwC (also noting that improved standards, enhanced international cooperation, and a refocused IFRIC should be conditions precedent). Cf. Praxair (new standards fail cost-benefit and utility tests). But cf. IIF (expressing more optimism about the joint projects).

61 ADM; AGA; Allstate (finding it "difficult to express unqualified support" for Staff Paper Framework give the MOU difficulties); Ameriprise; Chamber; Chevron (full completion before the SEC even makes a decision); Cisco; CSX; Dell; Emerson (defer any requirement to go to IFRS until MoU and Category 2 projects are complete); GM (MOU projects must be complete and have resulted in fully converged standards); Hess; ILCPA; Intel; MS; MSCPA; Navistar; PwC (calling for additional improve-and-adopt collaboration between the Boards going forward as well); URS. Cf. FedEx (completion of MOU will provide an "excellent foundation" for Staff Paper Framework).

62 ADM; AGA (completion of MOU as assessment in determining whether and when to move onto endorsement); Allstate (raises questions about the future ability of the FASB and IASB staff to work together to resolve differences, and about the IASB's insufficient consideration of U.S.-specific interests); Chamber ("The convergence projects are a 'litmus test' for the viability of any future IFRS endorsement project by the FASB."); Cisco (learn from process—see if Boards can work together to resolve their differences); Exxon (noting that this will result in either a permanent difference or a requirement for double transition, and stating that it may illustrate a bigger issue: that the U.S. system is simply not ready to accept the decisions of the IASB, including because the IASB standard-setting process may not fully take into consideration the U.S. legal and regulatory environment); Intel; MSCPA (SEC should hold off until all 11 convergence issues in the MOU are addressed, which would give SEC a "greater vision" of how the convergence process worked, and inform the SEC's ultimate conclusion on Staff Paper Framework or any other framework); URS (Before committing to a date certain, assurance of the ability of the IASB and FASB to work together in development of high quality standards is necessary.). Cf. FIRCA (need high-quality standards that will "serve the test of time" rather than "quick fixes" or "convergence for convergence sake").

63 ABA; Ameriprise (double transition on these projects unacceptable; need to get to 100% convergence); Chamber (double transition "unduly burdensome"); Constellation (expressing concern about the double adoption of standards); FIRCA; MS (transitioning to unconverged standards very troubling). Cf. ADM (companies should have option to use IFRS version if standards not substantially identical); KPMG (noting that

[Footnote continued on next page.]

Two commenters took the opposite view: that completion of the MOU projects should not be a condition precedent to the Commission acting.[65] One commenter asserted that the current MOU process should be stopped because it is not working.[66]

### 2. Other Conditions

FASB Research. One commenter called for the FASB to research the circumstances under which modifications to IFRS would be permissible or required in other jurisdictions following an endorsement approach, and what types of modifications have been made in practice.[67] Another three commenters called for the FASB to locate each significant difference between IFRS and U.S. GAAP and reach a resolution for how remaining substantive differences would be addressed, before the SEC can make a decision on incorporation.[68]

Disclosure framework. Some commenters sought a comprehensive, principled, and robust disclosure framework to accompany the conversion to IFRS, so investors would understand an issuer's accounting policies and applications, significant assumptions, compositions of account balances, and forward-looking analysis.[69]

## B. Other Conditions

Some commenters expressed other concerns about the implementation of an IFRS incorporation method; while not expressly asking for the full resolution of these issues before incorporation (as with the conditions precedent), commenters did seek for these issues to be addressed.

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non-converged MOU projects would become category 3 under the Staff Paper Framework model, and that the transition plan would have to consider how to effect the transition given the objective of not changing policies twice during the transition period).

64 Navistar.

65 Deloitte (noting that Boards may take a long time, and certainty is needed now; however, the implementation framework must make allowances for the possibility of dueling standards—including potentially permitting both to be U.S. GAAP—so as to not undercut the FASB's bargaining position with respect to the standards); S&P.

66 CRMC.

67 Deloitte.

68 Chamber; Chevron (citing inability to do cost-benefit analysis otherwise); NYSSCPA. See also Transition Plan section below.

69 Hess (citing unique opportunity with convergence; criticizing possibility of reconciling diverging standards through additional disclosure); S&P. See FHFA (robust disclosures of the operational and financial effects of incorporating IFRS during the transition period leading up to the effective date of IFRS incorporation).

### 1. Financial Reporting Infrastructure

Several commenters noted that comparable financial standards alone are insufficient to drive comparable financial reporting; an entire infrastructure or ecosystem is necessary.[70] These commenters urged greater global enforcement of standards, consistency in audits, and international cooperation by regulators for more consistent application of standards.[71] In particular, rigorous enforcement is important to avoid "false comparability: where the requirements of the standards in each jurisdiction are the same but the interpretations and practices are inconsistent."[72] In addition, consistency in interpretation and enforcement pushes interpretations into the open, toward due process, rather than behind closed doors.[73]

One commenter called for regulators to redouble their efforts at international cooperation.[74] Another commenter went a step further, calling for a multinational body that would be charged with consistency, application, interpretation, regulation, and enforcement in IFRS in all countries that have adopted it, as well as a judicial function to rule that a certain jurisdiction has not stayed faithful to IFRS.[75]

### 2. IASB Governance

Several commenters expressed concerns about the status of the IASB's governance. In particular, several commenters called into question the quality of the IASB's due process framework for standard-setting.[76] These due process concerns include IASB's inadequate

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70 ABA; CFA; Deloitte; Exxon; FEI; IMA; KPMG; Northrop; PwC. Cf. Pfizer (most IFRS reporters have not even adopted IFRS as issued).

71 ABA; CalPERS; CFA; Dell; Deloitte (calling on the SEC to increase efforts to coordinate consultation and monitoring activities with other countries' regulators); Exxon (calling for the Commission to consider the robustness of home country regulatory environments, the development of high-quality global auditing standards, and an active interpretive body); FEI; GM (calling on EITF and IFRIC to tackle translation and cultural differences in interpretation and application, and the SEC and IASB to tackle "short-cuts and non-compliance" not in line with "rigorous application of high-quality standards"); IMA (urging SEC global outreach); KPMG; PwC ("the regulatory and standard setting mechanisms that would facilitate improved consistency in application are, for the most part, not yet in place or do not year operate at a sufficiently high level").

72 FEI (expressing hesitation to support Staff Paper Framework absent "significant global development" in infrastructure and calling on the Commission to research the strengths and weaknesses of other global bodies that regulate the enforcement and auditing of IFRS).

73 ABA; Exxon ("false sense of comparability").

74 PwC (e.g., through signing cooperation agreements to accept financials prepared using IFRS as issued by the IASB as a global passport, which financials would be subject to review by securities market regulators in countries where capital is sought; deviations would be resolved through multilateral discussions to facilitate information-sharing across borders, and serious issues could be referred for interpretations).

75 Northrop (noting that comparability could suffer without an independent evaluator of jurisdictional standards' compliance with IFRS).

76 ABA; Allstate (noting FASB's requirements to carefully weigh stakeholders' views and ensure that benefits exceed costs are not replicated in IASB's governing principles); CFA (listing several weaknesses); Chamber; CII; CRMC (needing more rigorous and independent governance structure; IASB "will not provide better

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consideration of U.S.-specific issues (e.g., detailed rules, litigation risk) in the standard-setting process.[77] Commenters were also concerned about the IASB's lack of independence, particularly with respect to its funding,[78] lack of public accountability/excessive political influence,[79] lack of expertise,[80] and inadequate investor focus.[81] Finally, commenters were concerned that the IASB is not adequately exercising its interpretive function.[82] One commenter attached its comments to the Trustees' Strategy Review relating to IASB governance, echoing many of these themes.[83]

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information underlying assumptions, and therefore will not produce comparable, comprehensive, relevant, representationally faithful financial reports; need to assess ability to resolve emerging issues without compromising due process); FedEx (any framework applied in the U.S. must incorporate robust comment and redeliberations process); FEI (insufficient time on alternatives, rigid timetables, and excessive pace of change); IMA (IASB is rushing and deliberately attempting to avoid re-exposure, thereby cutting off input; field testing should be done regularly and not regularly; IASB should not be able to override due process as it did on IAS 39); Pfizer (attempted circumventing of due process and lack of responsiveness to U.S.-specific issues); Praxair; Sandler; TCHA.

77 Chamber (depth and size of U.S. markets reflect "special needs and issues" that IFRS needs to take into account; unclear if IASB is willing or able to do so); CN (IASB consideration of North American issues, e.g., Railway); Exxon (failure to consider U.S. legal and regulatory environment); FAF; FEI (SEC needs to maintain a strong U.S. standard-setting presence and actively monitor how effective the IASB is being at developing standards that meet the needs of U.S. investors and other constituents); Praxair; SIFMA (representation for U.S. constituents). Cf. ABA (noting need for an evaluation of litigation risk and need for rules-based accounting in U.S.; expressing concern that U.S. representatives on the IASB are not adequately representing U.S. issues); TCHA (calling for greater, formal representation on IASB for U.S. companies and calling more generally for regional/national representation on IASB and IFRS Foundation). See also FASB section below, re: enhancing FASB powers and enhanced representation of U.S. on IASB.

78 ABA (questioning also whether funding would be allocated from the FASB to the IASB); AFP (IOSCO should take a more active role over the IASB and its funding); CFA; Chamber; Citi (IASB needs mechanism of self-sustained funding like FASB); CRMC; FAF; IMA (IASB needs adequate sustainable funding without conflicts of interest); MBA; NYSSCPA; PCI; Praxair; TCHA (noting that progress has been achieved here but that too much funding still comes from voluntary contributions from companies and accounting firms); URS. Cf. AIA (clarify how funding would work under Staff Paper Framework); Ciesielski (questioning whether continuing to fund the FASB under SOX § 109 would be an improper subsidy to the IASB). But cf. BD (noting "presumably" the "[a]ccountability and [f]unding of the IASC Foundation" has been "resolved").

79 CFA (need to counterbalance global political pressures); CII (notes concern but also improvement by IASB here); CRMC (IASB ability to achieve high-quality standards "gravely diminished by political influence"); IMA (arguing that IASB should be accountable to the Foundation and to the Monitoring Board, but acknowledging balance necessary between accountability and loss of independence through outside influence).

80 CII (White Paper criticizes elevation of geographical representation over technical expertise); Pfizer (citing the large number of IASB members with widely varying expertise, interests, and concerns).

81 ABA (noting that IASB is in fact or in appearance deficient in focusing on investors and not public policy); CFA (focus on providing investors with decision-useful information and increased investor representation on IASB and IFRS Foundation); CII (noting improvement but continuing lack of investor representation); CRMC (extent to which IASB promotes preeminence of investor views); IMA; Sandler (pointing to overwhelming user opposition to proposed changes to reserving methods).

82 IMA (IASB reluctant to interpret its standards; goal is high-quality comparable reporting, not principle-only standards). See also Interpretation section below.

83 IMA (noting concerns about political interference in the IASB agenda, a lack of accountability for quality of standards, linkage between accountability and funding, references to "public policy" rather than needs of investors and creditors, insufficient due process and need for greater trustee monitoring thereof, lack of

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Another commenter called for the SEC to "comprehensively and critically evaluate the IASB's standard setting process" before moving forward.[84]

By contrast, one commenter thought the IASB's "governance framework and oversight procedures [now] appear to be reasonable and appropriate"—but called for a periodic review and report of the effectiveness of the IASB and its governance processes, along with a detailed study of the quality of the IASB standards and the consistency of their application around the world.[85] Another agreed that IASB governance had been substantially improved.[86]

### C. Transition Plan

Other commenters stressed the importance of a clear, comprehensive, well-developed, well-communicated transition plan, whether developed by the SEC or by the FASB, to be exposed for public comment before implementation.[87] A few commenters stated that the transition plan should be set out before the SEC makes any decision on whether to incorporate IFRS, and that, once set, the transition plan should be locked in rather than remaining flexible.[88]

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separation of IASB Chair and Foundation Chief Executive, and an inactive IFRIC). See also TCHA (noting the Trustees' review of IASB due process is "essential to continue to ensure that the IASB's standard-setting process is robust, accessible, and transparent"). Cf. CRMC (questioning oversight and composition of IFRS Foundation).

[84] Allstate. Cf. Chamber (evaluate IASB due process vis-à-vis Securities Act, Exchange Act, SOX, and Dodd-Frank Act, along with potential impediments to SEC supervision of IASB); CFA (based on the process as it exists, only 60% of members believe that a single-set of high-quality financial reporting standards is achievable); CRMC (including assessing adequacy of IASB independence and objectivity during recent standard-setting efforts).

[85] GE.

[86] IIF.

[87] AAR (transition period should be defined and address how IFRS will be incorporated "well in advance" of actual incorporation); ADM; AIA; Alcoa; Ameriprise (need to seek input from users and preparers in developing the transition plan); CAQ; CMS (need comprehensive transition plan with details on specific IFRS guidance that will be assessed); CNA (not specifying who should develop/expose it—FASB or SEC, and noting that exposure of the plan would permit more accurate feedback on the length of the transition); Exxon (requesting consideration of timing and practicality, and including a "robust cost-benefit analysis of each element of the plan"); FedEx (success of approach is "significantly dependent" on comprehensive and well executed transition plan); FIRCA (need to catalog what's in each category, identify where IFRS and U.S. GAAP differ, and to create a "new MOU" with project plans covering all standards); GM (to mitigate cost of complex transition); Hess (seeking FASB's public analysis of U.S. GAAP and IFRS differences and transition plan before any Commission decision to commit U.S. registrants to IFRS); KPMG (detailed plan for addressing differences); Lilly (companies can deal with the changes if they know what the end goal is; need a "well thought out implementation plan"); MBA; McKesson; NextEra; Northrop (requesting that the Commission issue a plan stating how each standard will be classified into categories, when each will be effective, and then expose it for comment); Southern; Verizon.

[88] Alcoa; Chevron (stressing comprehensive, stable, and cost-efficient transition plan to be developed before making any moves toward IFRS, including a requirement that the Boards resolve <u>all</u> gaps and differences to avoid permanent carveouts in advance of any adoption, and that interdependencies between standards be thoroughly examined; although flexibility is nice it is not as important as a stable, carefully-sequenced plan); GM (requiring transition plan to be viewed as "real" and that transition should not commence until after

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Several commenters expressed their views on specific aspects of the transition plan:

- One commenter advocated that, in formulating the transition plan, the FASB should study whether IFRS standards in Categories 1 and 2 should be phased in or incorporated on a single effective date, and whether early adoption of individual IFRSs would be permitted after incorporation, weighing several enumerated costs and benefits.[89]

- Two commenters noted that FASB should consider grouping PP&E, intangible asset, and leasing standards together, and that generally more grouping together of like standards can help avoid redundant efforts and system changes.[90] One commenter called for all Category 3 standards to be adopted at once.[91]

- Another commenter stated that the plan should: specifically address what to do with incompletely converged MOU standards; be more specific about the process for projects that are removed from the IASB agenda or delayed; and make sure FASB considers—with due process—static IFRS standards before incorporating them into U.S. GAAP.[92]

- Another commenter pointed out several areas of interdependencies that will make the formulation of a transition plan difficult, but asserted that avoiding retrospective adoption, having a stable platform, and bringing in the MOU projects would help.[93]

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developed); Hewitt (need an end date, so that issuers can plan); HP (requiring a comprehensive implementation plan with a definitive timeline to be established before the end of 2011); Verizon (large companies need to be able to anticipate deadlines to manage adoption); VSCPA (clear timeline); Zions (requesting Commission lay out a well-formulated implementation plan for the incorporation methodology, and that it be as long as reasonably possible). Cf. Hess (recommending that FASB evaluate IFRS and tell SEC what can be endorsed versus what cannot be endorsed (and why), then formulate a transition plan which SEC would evaluate; non-endorsed standards should be converged to a single set of standards).

89 Deloitte. Cf. CAQ (focusing on whether category 3 standards should be done at once or in batches to minimize disruption).

90 ILCPA; KPMG (discussing batching of PP&E, intangibles, and impairment).

91 AICPA (noting Category 2 could be adopted later, as issued by the IASB, but that FASB and IASB should work closely together to make sure timing was right). Cf. ADM (opposing "waves" of Category 3 standards); TEI (whether Category 3 are adopted simultaneously or gradually, need a clear transition plan and adequate lead time). But cf. ICBA (opposing adopting all Category 3 standards at once).

92 Exxon. See similarly MBA.

93 SanDisk. Cf. Citi (noting need to structure transition plan to avoid endorsing IFRS that would require other unconverged standards to be adopted first/simultaneously).

- Another commenter stated that the FASB should focus on the "significance" of the standard to the global capital markets in determining how to set its transition plan, rather than on the category that the standard might be grouped into.[94]

### D. Prospective v. Retrospective

Prospective. A significant majority of commenters that addressed the scope of potential standard application supported the prospective application of newly-incorporated standards.[95] Commenters focused on two principal reasons supporting prospective application. First, commenters were concerned that full retrospective application requires revisions or restatements of prior period financials, which would occur multiple times if implementation is spread over a long period, thereby confusing investors; prospective application would avoid this issue.[96] Second, prospective application would reduce the time and the cost relating to the transition by lessening the impact on reporting, IT systems, and auditing.[97] Several commenters expressed additional, more specific concerns that would support prospective application.[98] Two

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94 AFP.

95 ABA (one-time beginning balance adjustment, rather than full retrospective); ADM; AGA; AICPA; Alcoa; Barnard (but asking for comparative information to be provided); CalCPA (but asking for a cumulative catch-up adjustment at the date of initial implementation); Chevron (supporting for all 3 categories); Citi; Constellation; CP (except that an option to apply full retrospective in accordance with IFRS 1 should be provided); Duke; Emerson; FedEx; FEI; FHLB; FirstEnergy; Hess (and include MOU standards as well); Hewitt (for all Category 3); HP (acknowledging that retrospective may be necessary for "significantly better comparability and reliability" but asking that the Commission consider the costs of retrospective when determining which to use); ICBA; MBA; McDonald's; McKesson; Navistar; NextEra; Northrop; Pfizer; PPL; Praxair; Progress; SIFMA; Southern; UBS; Williams; Zimmer.

96 AGA; Chevron; Citi; Duke; FirstEnergy; Goodyear (supporting big bang to avoid multiple retrospective adjustments); Hess; NextEra; Progress; PPL; SanDisk; Southern; Williams (could even inhibit access to the capital markets). Cf. Crowe (not endorsing prospective, but noting the multiple restatement problem).

97 ADM (disproportionate cost for retrospective with little benefit); AGA (noting systems may not have been designed to capture prior period information); AICPA; Alcoa; Chevron; Citi; Constellation (noting particularly costs associated with componentization); Dell; Duke; Goodyear; ICBA (particularly for small entities); McDonald's (prospective application alone may ensure that the costs incurred in incorporating IFRS into U.S. GAAP would not significantly outweigh the benefits); McKesson; NextEra; Pfizer; PPL; Praxair; SanDisk; Southern; UBS (temporary reduction in comparability acceptable); URS; Zimmer. Cf. FHLB (still expensive). On costs, generally, see also ADM; Catanach; McKesson.

98 CSX (retroactive application of IAS 16, Property, Plant and Equipment raises significant concerns for industries such as railroads where requirement to componentize would be a huge burden on resources, costly, and the information would not be readily available); Dell (dual reporting at transaction level would likely have to be kept and manual entries may increase the risk of mistake and misstatement); Hewitt (IAS 16 should be prospective); ICBA (large costs to smaller institutions that would be forced to outsource to restate prior periods); McDonald's (specific concerns regarding additional cost-burden of componentization); NS; PPL (IAS 16); SanDisk; Zimmer.

commenters noted, however, that prospective application may give rise to the need to maintain two sets of books.[99]

Retrospective. By contrast, ten commenters supported a retrospective approach.[100] These commenters tended to focus on the investor perspective: that, while companies may prefer prospective application for the sake of simplicity, prospective changes damage the comparability of financial statements for investors (for whom the Commission is supposed to be the advocate).[101]

Other approaches. A few commenters sought to stake out compromise positions. One commenter that did not support full retrospective adjustments suggested pro-forma disclosures instead, as a more cost-effective way of meeting investors' information needs.[102] Another commenter noted that, if retrospective adjustments are not feasible in certain areas, qualitative discussion in the financial statements could be added.[103] One asserted that retroactive application should be required only where reported amounts would be dramatically different under new standards.[104] A final commenter noted that the retrospective approach may be made less burdensome by requiring a three year delay in the effective date of a new accounting standard—and so therefore believed retrospective should be required.[105]

Case-by-case. Finally, a handful of commenters supported neither prospective nor retrospective application in general, but rather supported taking a balanced or case-by-case approach.[106] Noting, for example, the cost and burden of retrospective application for issuers, versus the lack of internal and external comparability for investors, three commenters urged the SEC and FASB to seek input from investors and others as to which would provide the most useful information while taking into consideration the costs imposed on preparers.[107] One

[99] FHLB; IIF. Cf. Zimmer (difficult to eliminate multiple books entirely, but prospective is best option for it). But cf. Dell (two sets issue more pronounced with retrospective; requires two sets at the transaction level, usually with manual corrections, which could lead to misstatements or internal control deficiencies).

[100] CalPERS; CFA; Ciesielski; CII; CSX (but with exception noted in n.98 above); FHFA; IBM; ILCPA; PICPA; S&P.

[101] CalPERS ("Retrospective application is essential to understanding the trends in data and differences that are fundamental to investor analysis."); CFA ("appears more preparer than investor focused because of the lack of comparability that will be generated by the approach"); Ciesielski ("Prospective transition can make the simplest analysis impossible for investors and analysts."); CII; IBM (would impair ability to effectively communicate results); PIPCA (haphazard, and unclear how one would disclose in footnotes); S&P. Cf. ILCPA (if staged appropriately, retrospective should not be prohibitive).

[102] IMA.

[103] S&P.

[104] NextEra.

[105] CII.

[106] AAR; CN; Deloitte; Exxon; IIF (weigh the two carefully); KPMG (standard-by-standard, based on investor needs versus costs of implementation); PwC (weigh cost savings against information benefits to investors); UPC.

[107] AAR; Deloitte; McGladrey. Cf. CRMC.

commenter noted that the Commission should clearly differentiate which is which, and prospectively-applied standards should be broken into two categories: prospective for transactions after effective date versus prospective for transactions after earliest period presented in financial statements.[108] Some commenters supported evaluating each IFRS for exception to retroactive application as it is adopted into U.S. GAAP.[109]

IFRS 1 Issue. Commenters that supported FASB endorsement of existing IFRS prior to a date when the SEC requires registrants to adopt IFRS asserted that this approach would facilitate compliance with IFRS 1, "First Time Adoption of International Financial Reporting Standards".[110] Some commenters were concerned that the prospective application contemplated in the Staff Paper would not comply with IFRS 1, which generally required full retrospective application.[111] Some commenters therefore sought explicit guidance as to how compliance with IFRS 1 could be achieved,[112] or noted that amendments to IFRS 1 could be required.[113] Another commenter asserted that IFRS 1 worked well for other jurisdictions, and that it should be followed to the extent possible.[114] One commenter also expressed concern regarding the effect of MOU projects that do not result in substantially identical standards.[115] One commenter asserted that compliance with IFRS 1 would not be necessary under the Staff Paper Framework, but that an alternative (unspecified) first time adoption methodology should be implemented instead.[116]

### E. Timeline for Incorporating Existing IFRS Standards

5 to 7. Twenty-eight commenters expressed support for a 5-7 year timeframe during which IFRS standards would gradually be incorporated, as contemplated in the Staff Paper.[117]

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108 Exxon (with regard to the latter, advocating that the Commission selectively reduce the number of comparative periods required).

109 AAR; CN; CSX; NS (generally supportive of prospective but recognizes there may be instances where retrospective application of a standard may be "preferable"); UPC.

110 Ford.

111 ACCA; ADM; AICPA; CalCPA; CAQ; CBA; Chevron; Cohn; Deloitte, IBM; ICAEW; ICBA; McGladrey; NYSSCPA; PwC; S&P.

112 CalCPA; ICBA; NYSSCPA. See also ADM (indicating that the first time adoption effect on foreign subsidiaries that have already transitioned or are moving to IFRS may preclude any abandonment of IFRS 1).

113 AICPA; Deloitte; GT (noting that IASB accommodated Canada with amendments); KPMG; Navistar; PwC.

114 GT.

115 ADM.

116 Mazars. Cf. PwC (urging FASB and IASB to work together to achieve a balanced transition approach, which may also benefit other capital markets in the future).

117 AAR; Alcoa (preferring big bang but willing to support 5-7); CAQ ("reasonable"); Cisco; CN (minimizes costs and burden); Cohn (reasonable, provided pre-established dates for adoption of IFRS have been determined); Constellation (assuming Commission moves forward); CNA; CP; CSBS (prudent, even though some may view it as a lack of commitment to IFRS); Dell; Deloitte; Duke (assuming Staff Paper Framework pursued); FHLB (but longer would be OK too); Hewitt (5); KPMG; NextEra; NYSBD (same as CSBS); PPL; Progress (assuming Staff Paper Framework pursued); SanDisk (2 to 3 adoption windows over a 5 to 7 year period);

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Commenters expressed a number of reasons for supporting a 5 to 7 year time frame: (a) competing demands of day-to-day operations, including on staffing;[118] (b) competing regulatory requirements (e.g., Dodd-Frank);[119] (c) demands upgrading systems and controls;[120] (d) to allow time to train employees and others;[121] (e) to allow them to better manage resource needs;[122] (f) to ensure quality of resulting standards;[123] and (g) to learn from other jurisdictions.[124]

Shorter. Other commenters requested shorter periods of transition.[125] In support of this, commenters cited: (a) faster progress to incorporate IFRS would result in earlier termination of the current need to keep dual books, along with minimizing other costs;[126] (b) that questions will be incurred regarding U.S. commitment to IFRS;[127] (c) need to avoid prolonging as well as the period where comparability will be difficult due to the changes in standards;[128] (d) that investors will not benefit from such a long period of complexity, particularly if prospective application is used;[129] and (e) that extended period could affect covenants, regulatory requirements, and contractual arrangements for extended period, giving rise to business and financial risk.[130] One

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Southern (assuming Staff Paper Framework pursued); TDS; TEI; UPC; URS (no less than 5-7); Verizon (7); Williams. Cf. Hess (minimum of 4 years). But cf. IBM (5-7 unrealistic, given codification took 10 years to accomplish—without changing standards or exposing for public comment).

118 CP; NextEra; PPL. Cf. ABA (pointing out costs of training up internal staff, auditors, and regulators).

119 NextEra.

120 CNA; CP; Goodyear; PPL; Verizon; Williams.

121 CNA; CP; CSBS; Goodyear; NYSBD; SanDisk (investors, board members, issuers, and auditors); URS (regulators); Verizon.

122 Constellation (with 7 years can hire someone full time in-house, instead of paying for 3 years for consultants); CP (hire consultants without there being a bottleneck for those external resources as under a big bang approach); Williams.

123 CSBS; NYSBD.

124 CNA.

125 CalCPA; Crowe; FedEx; Ford; Mazars; NYSSCPA; S&P. Cf. MS (as short as possible); PICPA (avoid long period of continuous change).

126 ACCA; Crowe (noting costs of successive information system changes, disruptions to business operations through systems and accounting changes, lengthy training, and environment of perpetual convergence); NYSSCPA (no longer than 5 years). See also PICPA (repeated changes on multiple fronts would significantly increase implementation costs); Zimmer (domestic indicating that foreign subsidiaries currently keep dual books and a big bang adoption with retroactive application would require a third and possibly a fourth ledger). Contrast with, e.g., HSBC (FPI with domestic subsidiary issuers seeking adoption of IFRS as issued by the IASB).

127 CalCPA (U.S. is late to consider IFRS among major economies and should move quickly to catch up).

128 ACCA; CalCPA; FedEx; Ford; MS; S&P.

129 ACCA (investors prefer big bang); Mazars; S&P (users would have to monitor extensive and continuous change). But cf. Ford (noting more confusion if retrospective is used, not prospective); Lilly (proposing to remedy investor confusion over what standards are in effect at any one time not by decreasing the transition period but by reducing the number of years of comparative information in financials).

130 Crowe; S&P.

commenter thought the transition could be speeded by the FASB simply listing all IFRS standards to be adopted and implementing them on a pre-set date, leaving only a handful of standards to be adopted or modified.[131] One commenter asserted that a 3 to 4 year period should be established, with a trigger at the end that would incorporate the IFRS standard as written unless a specific decision had been made not to do so.[132]

Longer. Seven commenters requested a longer timeframe.[133] These commenters asserted that the extended transition period would require repeated restatements of prior periods to maximize comparability for financial statement users,[134] that the reporting companies operating processes would be required to undergo major, costly revisions throughout the extended period,[135] and that, in light of the enormous uncertainty and complexity introduced for preparers and users and the evolution of IFRS over the transition period, the 5-7 year estimate was "unduly optimistic."[136] Another group of commenters raised concerns about whether 5-7 provided a realistic timeframe under any transition and sought additional study of costs and benefits of the level of effort transition would entail.[137]

Zero Years. Commenters that did not support a phased transition, but instead sought a "big bang" approach to incorporation of IFRS cited primarily the ability of organizations to minimize cost by transitioning at a single point in time, rather than over an extended period.[138] A big bang approach would minimize the necessity of multiple, sequential retrospective adjustments which would be expected through a more gradual approach.[139] Commenters

[131] Mazars. Cf. S&P (ideal transition would be concurrent).

[132] CalCPA.

[133] ABA (perhaps double the 5 to 7 estimate); CMS (5 to 7 too aggressive); Emerson ("well beyond" 5 to 7 years, particularly for large accelerated filers); GM (5 to 10, after MOU process is over, but no longer otherwise companies won't commit); Lilly (given slowness of MOU pace, seems unlikey that the U.S. can get to full IFRS by 2018); Northrop (will still be implementing priority MOUs in 5 to 7 years); Zions (effective rollout cannot be completed in 5 to 7 years; rather, it should be as long as reasonably possible).

[134] See, e.g., Duke; FirstEnergy; PPL; Southern.

[135] Alcoa; Ford.

[136] CMS; Emerson (expect that the total effort from MoU completion to incorporation may take 10-15). See also IBM (comparing the FASB codification process which took 10 years and did not involve the level of exposure for comment and complexity that this project entails). Cf. ICAEW (asserting 20+ years more realistic, so supporting big bang approach instead).

[137] AIA. See also Emerson; IBM (concerns that without an early adoption option the Staff Paper approach sets up a period of constant change and upheaval for many years, beyond the 5 to 7 mentioned in the paper).

[138] Allstate (complex interrelationships between standards makes separation difficult; by contrast, could minimize costs through one coordinated project management effort to get all systems changes, etc. moved over at once); IBM (noting gradual approach cost "significantly greater" because of impact on systems and controls). But see SIFMA (size of project means large financial firms will need to break it into smaller pieces); URS (noting that the costs from a big bang and a staged transition would be about the same, but a phased transition would permit those costs to be spread over a longer time period).

[139] Allstate (investors could be confused with an extended period of transition, and may avoid industries with especially complex accounting changes or significant financial statement impacts); Goodyear (approving of a five-year transition period—but one leading up to a single, date certain transition).

asserted that the big bang approach would minimize confusion that could lead to inconsistent application or error (what are the rules, when do they apply, who is applying them), and would avoid conflicts between principles-based and rules-based standards.[140]

Several commenters, however, specifically opposed a "big bang" approach to incorporation, indicating their preference instead for a phased approach, like the Staff Paper Framework's approach.[141] These commenters cited the significant costs that would be associated with a transition based on a "big bang" approach,[142] and the potential for investor confusion.[143] An extended transition would allow for development of the systems and processes necessary to implement IFRS and allow the FASB extra time to deliberate discrepancies between U.S. GAAP and IFRS.[144] One commenter objected that a big bang approach that looked to the IASB would cede U.S. sovereignty and leave the U.S. without an adequate mechanism to protect U.S. interests.[145] Another commenter noted that the big bang approach would create a resource crunch, particularly with respect to qualified outside consultants.[146]

No deadlines. Commenters that suggested continuing with the current convergence efforts, as opposed to the methods set forth in the Staff Paper, disagreed with the establishment of stated deadlines under the Staff Paper method on the basis of concerns that standards will not be adequately considered, which could result in lower quality converged standards.[147] One commenter noted that the FASB should not be subjected to artificial deadlines (implied by the use of "relatively short period" in the Staff Paper) in establishing that timeline given the complexities involved in developing a transition plan after a Commission determination to incorporate IFRS.[148] One commenter indicated that "movement toward a single set of global accounting standards is an evolutionary process that realistically will take years before global standards achieve their ultimate state of uniformity and comparability across jurisdictions" and suggested periodic reviews by the FAF, SEC and FASB of the application, enforcement, and audit practices beginning five years after the U.S. decision to move to an incorporation approach to determine whether progress would merit further changes in the role of the U.S. standard setter.

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[140] CFA; GT (Staff Paper Framework would lead to uncertainty about the timing of incorporation, the extent to which special provisions may apply, and investors would struggle with the extended period of lack of comparability, particularly if prospective application is used).

[141] AGA; Ameriprise; Ciesielski; Citi; Constellation; Endurance; IMA; KeyCorp; Lilly; McDonald's; PCI; Pfizer; TDS; Zimmer; Zions.

[142] AGA; Ciesielski; Citi (citing significant systems changes and "potentially prohibitive transition costs"); Constellation; Endurance; IMA; KeyCorp; McDonald's; PCI; Pfizer; TDS; Zions (big bang unrealistic and financial infeasible for all but the largest multinationals). Cf. Endurance (while preferring continued convergence, noting that Staff Paper Framework would avoid some the costs of a "big bang" approach).

[143] Ameriprise (big bang insufficient time to educate stakeholders); McDonald's.

[144] See, e.g., AGA; Constellation; Pfizer; TDS.

[145] IMA. Cf. Zimmer (would expose SEC to adverse scrutiny for issues beyond its control).

[146] CP. Cf. TDS.

[147] Endurance; Intel. But cf. ACCA (SEC "clear commitment to a latest date").

[148] SIFMA.

Sufficient time. Regardless of the timelines they advocated, a few commenters stressed the need for all parties (e.g. preparers, auditors, academics, lenders, investors) to have sufficient time under a timeframe to transition to new standards,[149] and for regulators to operate and function under the new "principles-based" standards.[150] Some commenters wanted to make sure the timeline was coordinated and defined, to allow them ample time to prepare for each stage.[151] One commenter requested that the SEC provide more analysis of why 5 to 7 was appropriate.[152] One commenter noted that the phased-in approach would be most helpful for smaller companies without foreign operations, but that there should not be an open-ended approach without a pre-specified end date; rather, there should be an MOU-like schedule, with FASB to provide updates to the SEC about its progress toward that date.[153]

## F. Three Categories

### 1. In general

Several commenters expressly supported the three categories set out in the Staff Paper.[154]

Other commenters asserted that uncertainty in the timelines for FASB review of "Category 2" and "Category 3" IFRS must be avoided and an implementation timeline for how and when specific IFRS will be incorporated must be established in advance and adhered to (as opposed to the shifting timelines on the convergence projects.)[155] One commenter noted that, because the Staff Paper did not specify the standards that fall within these categories, it is difficult to evaluate the endorsement process in the document.[156]

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149 ABA; CAQ; FHLB (while 5 to 7 is acceptable, important thing is to get to high-quality standards, whatever the deadline is); IMA (seeking longer lead times and batched groups of changes to reduce transitions and therefore cost, and to reduce errors); MBA; McDonald's; NYSSCPA.

150 URS.

151 Alcoa (noted that in Brazil's convergence approach, the lack of a defined timeline created uncertainty regarding which standards would be applicable in certain statutory periods, which created problems for preparers and users); Ameriprise (requesting specific end-date on process); HP (adequate lead time with a definitive implementation plan); GM (clearly defined period allowing sufficient time for due process and implementation); NYSSCPA; UPC; VSCPA. See also, e.g., Verizon.

152 Amerprise (discussing as well the need for adequate time for investor education, including need for FASB to establish educational sessions for specific standards).

153 AFP.

154 Alcoa; CNA (seeking batched or grouped changes in Category 1 to the extent not implemented simultaneously, for efficiencies in system modifications, personnel, etc.—like mini big bangs); CP; FedEx; Hewitt; KPMG (provided the FASB develops a robust transition plan). Cf. NYSSCPA.

155 Alcoa; FedEx (need FASB and SEC to set Category 3 timeline in advance to reduce potential inefficiencies; consideration of interdependencies also needed); NYSSCPA (with regard to category 3). See also UPC.

156 Chamber (the Staff, with the assistance of the IASB and FASB, should catalogue how U.S. guidance in categories 2 and 3 differs for IASB and provide clarity under the Work Plan regarding whether and how the FASB and the IASB will address and resolve differences, including the industry-specific guidance that has no corresponding guidance in IFRS).

One commenter noted that the SEC and FASB needed a cost-benefit analysis for a separate category of standards: ones that are not meaningfully different but that would nonetheless require significant cost to transition fully.[157] One commenter was concerned that separate timelines were not attached to each of the individual categories, and that the extent of the interrelationships between categories was not adequately defined (e.g., if Category 1 takes more time than expected, how does that impact Category 2)?[158] One commenter noted that timelines for standard-setting tend to be delayed "well beyond the established timeline" and so therefore questioned whether Category 2 should be limited to those that have a fixed and committed timeline for revision by the IASB—and those should be "thorough[ly] review[ed] and evaluat[ed]."[159]

### 2. Areas not specifically addressed by IFRS

Several commenters raised the need for an approach that retains U.S. GAAP guidance for areas not specifically addressed by IFRS.[160] Some commenters called this "Category 4."[161] Commenters noted that eliminating this well-understood and well-regarded guidance would harm investors, users, and preparers.[162] One commenter stated that a transition plan should include a process to evaluate each area to determine whether the standard is consistent with IFRS principles and, if so, to determine whether it should be retained or eliminated.[163] Consistent with concerns regarding industries where IFRS does not provide specific guidance, two commenters expressed the belief that any determination regarding the continuation of guidance in current U.S. GAAP applicable to specific industries that is not present in IFRS should be endorsed by the FASB early in the process.[164]

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157 Pfizer.

158 Ball.

159 HP. See similarly ADM (treat all Category 2 as Category 3).

160 Ameriprise; API, Chevron; Cohn (GAAP covers certain issues not covered by IFRS; IFRS will benefit from GAAP experience); Exxon; FEI; IMA ("could be useful to the extent it is consistent with IFRS"); KPMG (a "carve-in" for issues not addressed in IFRS); MBA (troubled debt restructurings and mortgage servicing rights); MSCPA; SIFMA; VSCPA; Williams; Zions. Cf. Ciesielski (noting that eliminating this guidance would be like turning back the clock to before it existed—a suboptimal state—but that retaining it creates a de facto national standard; the balancing act is "delicate" at best, "impossible" at worst).

161 AGA; FEI (broadly for all matters unique to the United States). Cf. Chevron (need to subdivide Category 3 into known gap areas and others).

162 Ameriprise (without it, IFRS not an improvement over current GAAP; critical to leave this in place if not contradictory to IFRS standards); API (advocating that the standards should instead be promoted as a best practice to the IASB as it looks to address gaps in IFRS); VSCPA.

163 Exxon. See similarly MBA (comprehensive evaluation of IFRS not in GAAP, GAAP not in IFRS, and differences between the two).

164 AGA; PPL (with regard to ASC 980). But cf. HSBC (asserting that rather than maintaining a separate and different U.S. ASC, technical gaps in IFRS should be addressed through IFRS, with the IASB and the FASB using the mature body of U.S. GAAP guidance "to best advantage to identify and supplement any essential technical gaps in IFRS").

One commenter criticized the concept of "Category 4" standards, noting that leaving them in place creates an automatic U.S. flavor of IFRS.[165]

### G. Interim Standard Setting (Stable Platform)

Several commenters believed that some halt, moratorium, or slowing of standard-setting during the transition period would be appropriate to limit the amount of change to U.S. GAAP during the transition period.[166]

A number of commenters expressed concerns surrounding uncertain accounting standard developments during transition.[167] In this regard, some commenters explicitly noted the importance of a moratorium on changes to current U.S. GAAP standards during the incorporation of IFRS.[168] Further, one commenter indicated that the FASB should avoid incremental disclosures related to IFRS implementation after the first year.[169] Another noted that improvements to IFRS beyond the active MOU projects should not delay the U.S. date of transition to IFRS.[170]

## III. Comments on Role of U.S. Standard-Setting Body

### A. FASB should be retained

The vast majority of commenters supported the retention of the FASB in some form, and expressed a number of different reasons for their position.[171] One rationale was predominant: that the FASB would be able to act in the interests of U.S. investors or other constituents to

[165] Mazars. See also IIF (reconsider retaining them; U.S. needs to get used to a different level of guidance). Cf. Chevron (should meet with IASB to discuss these standards); HSBC (should set new IFRS standards in these areas rather than retaining U.S. standards).

[166] ADM (2 years); CP; Dell; Goodyear ("attempt to minimize the issuance of new accounting guidance or changes to existing guidance" while "understand[ing] that a full moratorium . . . is unreaslistic"); GT; IBM; Mazars (FASB should have no new standards and no new implementation); PICPA (maximum 2 periods of transition, and no other standards implemented during that time); SanDisk (limit or delay adoption of new IFRS standards); Verizon; Williams.

[167] See, e.g., Alcoa; NextEra.

[168] ADM; Dell; PICPA; Southern.

[169] Dell. See also Hewitt.

[170] ADM ("The improvement project could begin as soon as the MoU projects are concluded, but the effective dates would be set for after the moratorium. . . expires.").

[171] AAR; ABA; ACCA; ADM; Aflac; AFP; AGA; AIA; AICPA; Alcoa; Allstate; Ameriprise; Blackstone; CalCPA; CalPERS; Chamber; Chevron; Cisco; Citi; CN; CNA; Cohn; Constellation; Crowe; CRMC; CSX; Debuque; Dell; Deloitte; Duke; Endurance; Exxon; FAF; FedEx; FEI; FHLB; FIRCA; FirstEnergy; GE; GM; Goodyear; GT (but noting that a committee may be formed to deal with endorsement, leaving the main body of the FASB free for private company standard-setting); IBM; ICAEW (supportive of the input of the FASB on the work of the IASB, after mandatory adoption); ICBA; ICI; ILCPA; IMA; KeyCorp; KPMG; MBA; McDonald's; McGladrey; McKesson; Microsoft; MS; MSCPA; Navistar; NextEra; NS; Ontario; PCI; Pfizer; PPL; Progress; PwC; SIFMA; TDS; TEI; TransCanada; UBS; UPC; URS; VSCPA; Williams; WSIB; Zimmer; Zions. But cf. Hewitt (monitoring can be accomplished through the SEC role on the Monitoring Board).

ensure a U.S. voice in standard-setting.[172] The rest of the rationales cited tended to relate, in some way, to that predominant rationale: (a) the FASB would be able to provide assistance to the IASB in its development of IFRS;[173] (b) the FASB can issue supplemental or interpretive guidance on application of IFRS;[174] (c) a FASB role is necessary to ensure due process and investor protection in incorporating international standards;[175] (d) FASB helps ensure the preservation of U.S. regulatory authority, to maintain accounting quality and rigor;[176] and (e) a robust FASB hedges against IASB failure to develop high-quality standards appropriate for U.S. capital markets.[177] A handful of commenters advanced other rationales.[178]

Seven commenters asserted that the U.S. should not have an endorsement mechanism (i.e., did not support the continued role of the FASB, at least in the sense outlined in the Staff Paper).[179]

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[172] AAR; ABA; ADM; AGA; AICPA; Alcoa; Allstate; Ameriprise (address risk of inadequate U.S. constituents during FASB process); BD; Chevron; Cisco (U.S. companies in highly advanced and technically demanding legal and regulatory environment, and U.S. companies thus require a strong standard-setting presence); Citi; CN; CNA; Cohn; Deloitte; Duke; Exxon; FAF; FHFA; FirstEnergy; GE; GM; GT; IBM (stressing the value of the FASB supporting the IFRS Interpretations Committee); ICBA; ICI (investor protection); IMA; KeyCorp; KPMG; MBA; McDonald's; Microsoft; MS; MSCPA; NextEra; NS; Pfizer; PPL; Progress; TransCanada; UBS; UPC; URS; Williams; WSIB; Zions. Cf. McGladrey (imperative for SEC to retain authority over accounting standards).

[173] Aflac; AICPA (FASB can identify new and emerging reporting issues, along with assisting in the development of high-quality standards); Allstate (IASB can benefit from "rich experience" of the FASB); CalPERS; CBA (noting that other national standard-setters and the FASB can work together to create acceptable IFRSs that will minimize the need for future modifications); Cisco (make sure needs of U.S. companies are understood by international standard-setters); Citi; CN; CNA; Cohn; Dell; Exxon; FAF; FirstEnergy; GE; GT; KeyCorp; McDonald's; MS; Navistar (U.S. voice); Ontario.

[174] AGA; Dell; IMA (if IASB fails); KeyCorp; URS; Williams; Zions. But cf. Goodyear (FASB's active role in IASB standard-setting should minimize the need for FASB to issue supplemental guidance); AIPCA (FASB should be working with IASB to develop standards; separate guidance should be solely nonauthoritative and guidance should not be central to FASB mission).

[175] CFA; Dell; Duke; Endurance; FAF; FirstEnergy; GE; ICBA; ICI; KeyCorp; McDonald's; MS; NextEra; NS; Ontario; PPL; Praxair; Southern; URS; Verizon. Cf. Blackstone; Cohn.

[176] API; Constellation (need to retain FASB and ultimate SEC control); FAF; FedEx (need for FASB to play role in standard-setting to limit the need for U.S. modification); FEI (discussing the "highly developed and technically demanding reporting and control" framework in the U.S. that makes standard-setting a "difficult task that requires a thoughtful and thorough due process" and incorporates practicality and cost/benefit considerations); Navistar (U.S. sovereignty); PCI (no ceding of U.S. authority); Pfizer (remedies the SEC's absence of official role in IASB governance).

[177] Duke; FEI; GE; IMA; MSCPA; Pfizer; URS (IASB not yet demonstrated the "platform necessary for establishing and maintaining a single set of high-quality global accounting standards").

[178] ICI (certain industries should be excluded from transition to IFRS; the SEC will need to designate a standard setter (whether it is the SEC or FASB) to maintain U.S. GAAP for those industries); MSCPA; NextEra (maintenance of a jurisdictional mechanism for providing country- and industry-specific considerations (and interpretive advice) would increase consistency in the application, interpretation and enforcement of standards).

[179] Aflac (noting that FASB should be involved with the IASB standard-setting process but that it should not have a role in endorsing standards; in addition, the SEC would not modify IFRS but would only require additional

[Footnote continued on next page.]

### B. General Role of the FASB

There was a general sense among the comments received that, if anything, the framework in the Staff Paper should maintain a more prominent role of the FASB in standard setting. However, some found FASB's role contemplated in the Staff Paper to be too robust.

#### 1. Support for the role contemplated in the Staff Paper.

Endorsing. Twelve commenters agreed with the Staff Paper that FASB should have the ability to modify IASB standards before incorporating them into U.S. GAAP, provided that there is a high threshold for determining when not to incorporate an IFRS standard as written,[180] and that FASB should deviate from the IASB standard only "rarely."[181] However, many of these commenters asserted that, while the Staff Paper was directionally correct, the SEC needed to

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disclosures "at most"); Ball (arguing that IFRS should be "adopted without reservation or caveat," leaving existing U.S. GAAP at a lower rank in gaap hierarchy; having FASB review IASB standards could "undermin[e] the legitimacy of the IASB Board and the IFRS's ability to establish and maintain a single set of high quality global accounting standards that are relevant for all markets"; and maintaining the FASB could decrease U.S. stakeholders' engagement with the IASB, or make stakeholders follow two separate entities' due processes); BNY (only one standard-setter—the IASB—with FASB in clear secondary role); CBA (noting that, if a mechanism is included, deviations should be rare/unusual, with a goal of full consistency with IFRS); HSBC; ICAEW; UBS.

[180] ADM (FASB discipline needed); AICPA (threshold should be set high to avoid differences); Chevron (objective of avoiding a significant number of exceptions or differences is important); Deloitte ("only if it determines that such an override is necessary in the public interest, to protect U.S. investors, or there are legal or other operational barriers to incorporating the IFRS principle"); FedEx (agreeing with "rare" provided FASB has strong voice on IASB so that U.S. issues are incorporated into international standard-setting process); FHFA (SEC should set threshold so that instances where the FASB modifies IFRS, retains relevant U.S. GAAP, or implements an alternative solution, remain rare—e.g., only where the IFRS requirement is opposed by a majority of U.S. investors); KPMG (needs to be geared toward achieving dual compliance with IFRS and U.S. GAAP, and noting that, therefore, the threshold for a carve-out should be set higher than the threshold for a carve-in, which would not affect the dual compliance assertion); PwC (the articulated "consideration of public interest and protection of investors" is a good starting point, but needs to be further fleshed out); SIFMA (public interest and protection of investors finding); TDS; TEI; VSCPA.

[181] AICPA; Alcoa; AGA (agreeing that rare preserves the goal of a single set of standards, but noting that it is unlikely to occur in practice); CalCPA (but distinguishing between modifications that would change measurement, presentation, or omit disclosures, which should be rare, and those that would add disclosures, which could be "relatively common"); CBA (although preferring no endorsement mechanism); CSX; Dell; Deloitte (as the IASB's due process also considers the interest of investors, and it is not clear why global investors should be any different than U.S. investors); GM; HSBC; IIF; KPMG; MS (noting FASB would need to be able to provide significant input into IASB processes for this to remain true); Ontario (only situations that are warranted and not based solely on differences in the current accounting standards); S&P (avoided entirely); SIFMA (FASB should provide rationale for divergences); TDS; TEI; UBS (only "exceptional" cases); VSCPA. Cf. Allstate (not disagreeing, but noting that FASB needs a stronger and more formalized voice in the global standard-setting process before this would be realistic); Exxon (should exhaust other remedies first); FedEx (similar to Allstate).

provide the FASB with guidelines (a.k.a. process, framework, or criteria) to assist it in executing this principle, or that the FASB needs to develop a process for implementing this power.[182]

Commenters provided some ideas about what such a framework would look like. Several commenters thought that the SEC should actively oversee the FASB in the event it seeks an override.[183] Some commenters believed that the FASB should prefer additional disclosure, supplemental application guidance, or the narrowing of optionality to the adoption of an inconsistent standard.[184] One commenter requested that FASB develop a "predetermined decision and quality control process" when exercising its authority to override, so as to limit divergence.[185] Where the FASB decides to override a standard, one commenter stated that it

[182] ABA (requesting more detail about how FASB will deal with disagreements, whether disclosure or implementation, or a different standard); AFP (SEC must issue "well-defined rules, with examples, to clearly explain under what circumstances the FASB" may override IASB decisions); AGA (clarify what the FASB's process and role will be in the evaluation, interpretation, and incorporation of IFRS; noting this is to be determined by the SEC as part of standard statutory responsibilities (investors/markets/capital formation)); CFA (lists ten considerations that should be part of criteria to be part of standards established for endorsement of accounting standards); CNA (Commission needs a plan that anticipates differences, that sets out the full endorsement protocol for IASB standards and for standards that do not have an IFRS counterpart, and specifies how to handle standards that are not currently converged); Cohn (Commission needs to provide guidelines on how to implement "in the public interest or protection of investors" standard); Deloitte (e.g., consultation with other national standard setters first); Exxon (protocol should require exhausting of other avenues of resolving differences before issuing standards conflicting with IFRS); IBM ("any changes to IFRS should only be made when they provide the broader capital market stakeholders with sufficiently superior information to IFRS or only when the IFRS information is proved to negatively impact stakeholders in the U.S. market"); IMA (FASB to create a framework based on SEC objectives to determine how to evaluate standard for inclusion in U.S. GAAP, and when intervention would be acceptable to protect U.S. interests; if a departure, a specific justification should be required); KPMG (because the FASB's role will differ from current one, there needs to be a "new process and framework" to address how FASB will evaluate IFRS standards, but contemplating that it will be developed by the FASB and exposed for comment, with substantive reasons for decisions that would prevent dual compliance); Navistar (need clarity as to the specific framework that would be used "to determine conditions for departure and the tolerance levels envisioned in achieving an assertion of dual compliance"); NYSSCPA (clear criteria); Pfizer; PwC (calling for a better-articulated set of criteria against which the endorsing body would measure new IASB standards to determine their acceptability; because the likelihood of a U.S. flavor developing (which varies inversely with the amount of U.S. voice in global standard-setting) is dependent on the criteria enunciated, that should be a condition precedent to moving forward). Cf. FAF (articulating potential framework); MBA.

[183] Deloitte (should be a defined and transparent process, including consultation with other regulators; helps ensure rarity); UBS (FASB deviations should be communicated transparently and "validated" by the SEC).

[184] CSX; Deloitte; FERC (without a standard similar to SFAS 7, financial statements would mischaracterize the financial position of rate-regulated entities and deprive users of financial statements of decision-useful information); ICI (U.S. GAAP and Reg S-X have a large body of guidance specific to investment companies, while IFRS has no guidance or reporting requirements specific to investment companies. . . while forthcoming release establishing the concept of investment companies in IFRS is helpful, it is not a replacement for carrying forward ASC Topic 946 in its entirety); KPMG (narrowing optionality (with example given on noncontrolling interests in business combinations) and specifying additional disclosure); MSCPA (noting that FASB can modify standards, but asserting that modification would be through narrowing the standard or providing greater interpretation); NS; PPL; Southern (in the area of cost-based rate regulation under ASC 980); VSCPA. But cf. S&P (no guidance).

[185] CalPERS. Cf. FEI (advocating for a framework as well, but one that gives FASB more authority to make changes where needed).

should require issuers to disclose comparative information to investors along with qualitative disclosures about the nature of the modification, targeted at a materiality level.[186]

### 2. Role of FASB should be stronger than contemplated in Staff Paper.

Thirteen commenters expressed support for increasing in some way the authority of the FASB over what was proposed in the Staff Paper.[187] Most frequently, in opposition to the commenters above who agreed with the "rare" standard set out in the Staff Paper, commenters here thought that FASB should be able to modify IASB standards for U.S. requirements to the extent necessary and/or appropriate,[188] even if that means something other than "rare."[189] Other areas in which FASB's authority should be increased, according to commenters, were (a) FASB should be able to develop new pronouncements as necessary for U.S. reporting where the IASB does not address the matter;[190] (b) FASB should have the authority not to endorse specific

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[186] Deloitte (noting that other countries adopting differences should be urged to do the same).

[187] Ameriprise (SEC and FASB should not concede decision-making authority to the IASB); Chamber ("The FASB needs to have an elevated role to assure it has a strong voice in global standard-setting."); CMS; Debuque (do not subject FASB to the "authority of the IASB" but let it "continue as an unleashed pioneering standard-setting force"); FAF; FEI; FHLB; FIRCA; FirstEnergy; ILCPA; MBA; Miller (as currently described, FASB would be completely marginalized and would act only as a rubber-stamp for the IASB, and the SEC would marginalize its own influence on standard-setting); PCI. Cf. CRMC (not supporting Staff Paper Framework in part because "FASB would suffer and deteriorate over time to the detriment of investors [and] would lose the prominence that it currently has and it would be difficult for it to recruit high-caliber people").

[188] AIA, CalPERS (when "public interest, investor needs or local circumstances require or if the quality or application is inappropriate"); Citi; CMS; FAF (set out proposed criteria for IASB standards to meet in order to be incorporated); FEI; GE; GM ("modify or supplement IFRS, when necessary, to protect the public interest and investors"); Lilly (need "thoughtful framework"); Progress; Pfizer. Cf. NYSSCPA (expressing concern about quality of IFRS, requesting SEC explain its conclusion as to why FASB revisions to IFRS standards would be "infrequent").

[189] AIA (use "when necessary" rather than "rare"); BNY; Duke (need a framework; should be set at necessary rather than rare, because rare could marginalize FASB authority); FEI; FirstEnergy (particularly if IASB fails to consider input); IMA (rare and generally avoidable is too tight a constraint on FASB); Cisco (although a threshold is important, "rare" is too limiting); Citi (FASB to evaluate, but when IFRS standard rejected FASB should justify its decision in a formal document like current basis for conclusions, and consider supplemental disclosures to reconcile resulting differences); CMS; CNA ("rare" is an unreasonable expectation; differences should be anticipated and a plan to address them developed); Lilly ("rare" is too high and undercuts FASB's ability to exert influence on the IASB, to the detriment of U.S. constituents); Pfizer (rare too often is interpreted as "never"; if FASB needs to diverge even frequently, that's fine if necessary to protect investors, whose demands are "stringent and increasing" and whose "low tolerance for misleading or incomplete information will persist and require satisfaction"); PICPA ("rare" subjects U.S. companies to the IASB, and gives U.S. less influence in standard-setting); Progress; Southern ("We are concerned that a stated expectation by the SEC that FASB modifications would be rare might unintentionally restrain the FASB in the exercise of its authority in this area to the detriment of U.S. issuers and their investors."). .

[190] AIA (noting events that require immediate U.S. standard setting, e.g. EITF 01-10 Accounting for the Impact of the Terrorist Attacks of September 11, 2001); Ciesielski (noting that the IASB may never address some purely U.S. issues); Duke; FAF; FirstEnergy; IMA (even if it precludes the ability to assert dual compliance); MBA (accounting for health care legislation); Praxair. Cf. Ameriprise ("FASB should not be constrained by the IASB's workflow and political priorities"); KeyCorp. But cf. Citi (FASB should no longer issue separate U.S. GAAP standards).

principles and disclosures in IASB standards or to alter them, if there is an appropriate basis for the change;[191] (c) FASB needs to have a formal role in the IASB standard-setting process;[192] and (d) a generic assertion that more authority should be given to the FASB to make changes to global standards.[193]

### 3. Role of FASB should be weaker than contemplated in Staff Paper.

As noted above, a group of commenters expressed the concern that the role and authority of the FASB contemplated in the Staff Paper runs directly counter to the purported benefits of a common set of high quality, global accounting standards.[194] The Staff Paper's "rare" differences are not rare enough: FASB should never be able to override.[195] It should not be permitted to issue supplemental guidance—that should go through the IFRIC (a.k.a. IFRS Interpretations Committee).[196] But it could call for additional disclosure.[197]

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[191] FEI; FHLB (authority not to adopt IFRS standard if not an improvement on current U.S. GAAP). Cf. ICI (carry forward mutual fund ASC Topic 946, even if IASB's proposal is adopted).

[192] ABA (FASB needs strong, continuing role in standard-setting process); Allstate (FASB needs a formal role in the IASB standard-development process commensurate with the U.S. share of the global economy); Blackstone (FASB must have a strong voice in standard-setting process and adequate representation at the IASB to protect against a diminution in its authority which could lead to inability to attract and retain talent—a vicious circle); Chamber; FAF; FEI (FASB needs to be "vibrant and engaged," with the "requisite authority and influence" to ensure that newly developed global standards fully and appropriately meet the needs of U.S. constituents—including that they are operational and cost-effective); FIRCA; KPMG (strong FASB role in IASB standard-setting will help cut back on differences); Microsoft (specific mechanisms should be explored to ensure FASB has a robust role, including interlocks or FASB endorsements of exposure drafts with detailed feedback on how the IASB took into consideration FASB views). See also infra FASB and IASB section.

[193] CMS (quality of U.S. accounting standards should never be sacrificed for the goal of convergence); FEI; ILCPA (need more power to craft timely remedies on potential future U.S.-specific interests); PCI (other countries do it too); MBA (FASB "proactive"); Pfizer.

[194] ACCA; Aflac; Ball; BNY; HSBC; IBM (noting also that differences could be replicated worldwide); ICAEW; OHCPA. Cf. S&P (supporting having FASB as the U.S. voice in the global standard-setting process, and even an active voice, but that discretion to modify would lessen global consistency and comparability); Zimmer (goal is to have global standards). Cf. Hewitt.

[195] ACCA (SEC can override; FASB should try to persuade IASB); Aflac (noting, based on current MOU non-progress, that there is "great potential that the FASB will modify more IFRSs than the staff anticipates"); Ball (preferring no authority to change but, at a minimum, requesting "outside verification that the changes are necessary"); CSX; Hewitt; IBM; S&P ("do not support the power to create 'carve-outs' or modify IFRS in a manner that would result in a U.S. version of IFRS"; the authority to reject a standard should be limited to "extraordinary circumstances, such as financial reporting that would be misleading). Cf. Zimmer ("extremely rare").

[196] IBM; S&P (noting as well that even the SEC should take a limited and infrequent role in issuing accounting guidance, so as to avoid a U.S. flavor of IFRS). Cf. KPMG (should have a presumption that interpretation is to be done by the IFRIC, with SEC issuing interpretations only where necessary). But cf. ACCA (supporting FASB disclosure, limiting options, and guidance for areas not covered); Zimmer (FASB could issue application guidance).

[197] S&P. But cf. Chamber (disclosure does not overcome problematic accounting or limitations of IFRS); Constellation (risk of excessive disclosure requirements if FASB has unfettered ability to provide for additional disclosures as a way of bridging differences between US GAAP and IASB standards; recommending a

[Footnote continued on next page.]

Some raised concerns regarding the potential impact of the proposed authority to modify requirements of IFRS that are incorporated in U.S. GAAP.[198] Commenters noted that the role of the jurisdictional standard setter(s) in the standard by standard endorsement process under the framework raises concerns because it gives rise to the risk of developing a two-tiered IFRS, with the jurisdiction's standards being inconsistent with those in other jurisdictions that have adopted IFRS.[199] A commenter noted that, in addition to concerns about the risk of modification, a multi-part adoption process where IFRS approved by the IASB then have to be approved by the jurisdictional standard setter has also led to confusion among preparers and users in other jurisdictions.[200] Another two commenters suggested that, rather than allow the FASB to make modifications to IFRS, only the SEC should have that authority upon the recommendation of the FASB.[201]

#### 4. Authority considerations regarding contemplated role of FASB.

Two commenters raised concerns that the role of the FASB, as contemplated in the Staff Paper Framework, is inconsistent with the role of the standard-setter contemplated in Section 109 of the Sarbanes-Oxley Act and raises concerns regarding the legitimacy of funding the FASB in that role.[202] Another noted that the SEC's budgetary considerations and resource limitations could affect its ability to oversee adequately the IASB.[203]

### C. Potential for 'flavors' of standards

Related to the questions of whether FASB should be given greater or lesser authority to override IASB standards is the question of whether that would result in a U.S. variation, or 'flavor', of IFRS—and the implications of such a result. Commenters noted that if the FASB is ever overruled by the IASB in formulating a standard, the FASB can simply adopt a

"rigorous process and high threshold" for FASB to establish any differences from IASB, including disclosure differences); FIRCA.

198 CSX; ICAEW; S&P; Zeff. Contrast with, e.g. ICBA (explicit support for FASB authority to modify IFRS when substance is not in the best interest of U.S. constituents).

199 IBM; ICAEW; Intel.

200 ICAEW (advocating instead a role for FASB only in providing input into IASB process).

201 ACCA; Hewitt. Cf. CRMC (SEC should review each standard and issue a report to investors on its review.).

202 Ciesielski; Miller (Commission would no longer be in compliance with its congressional mandate to establish reporting standards). But cf. IBM (endorsement mechanism would result in SEC fulfilling congressional mandate to establish standards).

203 Chamber (suggesting also that the SEC implement a Financial Reporting Forum, as suggested by CIFiR, as a means to allow the SEC to assist in the FASB-IASB governance process by identifying short- and long-term financial reporting issues and solutions).

difference.[204] However, another commenter supported this dynamic, so as to give the FASB a strong voice in international standard-setting.[205]

Several commenters generally supportive of the Staff Paper Framework questioned whether it will inevitably lead to a U.S. flavor of IFRS, which would diminish comparability—the stated purpose of incorporation of IFRS.[206] Commenters noted that U.S. deviation would also make it difficult for the U.S. to oppose jurisdictional flavors elsewhere.[207]

Even where commenters warned against jurisdictional flavors a number expressed a belief that widespread adoption of IFRS with some variety of flavors in multiple jurisdictions is favorable to the current state of accounting standards.[208] However, one commenter warned that a failure to converge auditing policies on an international basis to accompany global accounting standards would potentially undo any benefits of incorporation.[209] Several commenters asserted that the assertion of dual compliance at the end of the transition period is a key objective, and a critical part of the approach.[210] However, another two commenters asserted that the Staff Paper Framework should not seek dual compliance, and that a U.S. flavor of IFRS would be more than enough progress toward a single set of high-quality, globally-accepted accounting standards.[211]

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[204] Mazars; S&P ("do not believe it would be valid to reject a new IFRS solely on the basis that the IASB has not accepted the FASB's views on a particular accounting standard").

[205] ABA (although noting that its membership was somewhat split on this point; some wanted a greater focus on adoption of IFRS as issued by the IASB).

[206] Alcoa (risk very real); Chevron (permanent differences call into question the value of IFRS incorporation); Ciesielski (noting that IFRS can hardly be called a "global" standard when US is different from EU which is different from other 48% of the world); Cisco; CP (requesting that exceptions be minimized as they could inhibit companies' ability to compete globally against companies that have a broader set of accounting options open to them); Crowe; IBM; IIF; Mazars (although noting that the EU endorsement mechanism has not generated "significant deviations" from IFRS as issued by the IASB); MBA (dual books); Miller; MS; NYSSCPA (not certain that SEC conclusion—that revisions would be infrequent—is "reasonable"); Praxair (but supporting FASB's power to do it); S&P; UBS. See also Catanach (expressing opposition to incorporation of IFRS, generally).

[207] IIF; PwC. Cf. UBS (urging US to take a leadership role in minimizing siloing of standards).

[208] AGA (more comparability favored even if ultimately not the same; add disclosures for limited country-specific exceptions); Alcoa ("even if the result is a slight US flavor of IFRS, we believe that 'very closely aligned' global accounting standards is still a considerable improvement from existing circumstances, both for preparers and users"); Chamber; Constellation; Dell; FAF; FEI (continuing progress in eliminating differences is still an improvement and a worthy goal); FHLB (goal is to avoid U.S. flavor, but may be necessary to pursue goal of high-quality standards, not just lower-quality for the sake of convergence) IMA (principles that are closely aligned but different is preferable to completely diverse models). But cf. Hess ("If the SEC is seriously contemplating a U.S. version of IFRS as a satisfactory outcome, we would recommend staying with U.S. GAAP instead of proceeding with the adoption of IFRS.").

[209] Chamber. See also AICPA (continue to encourage PCAOB to harmonize with IAASB's ISAs). Cf. NYSSCPA (auditors tend to drive IFRS compliance toward old national GAAPs).

[210] ACCA; ADM; AICPA; CP; KPMG.

[211] CMS (the goal of dual assertions is "unwarranted"); Navistar. Cf. FAF ("…although the pursuit of a single set of global accounting standards is a worthy objective, a more practical goal for the foreseeable future is to

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Three commenters asserted that the Staff Paper Framework would never result in entities being able to assert dual compliance.[212] One commenter requested that the SEC work with the PCAOB to determine how auditors would report on asserted dual compliance.[213]

Several commenters noted that differences, even those that have not been resolved in the MOU priority projects, are "inevitable" and "may actually be necessary in order to fairly reflect differences in circumstances."[214] Another commenter echoed this, noting that imperfections in understanding, application, and translation of IFRSs would be expected under any approach—even the most faithful to IFRS—and thus some level of deviation should not derail the goal of IFRS.[215]

### D. FASB's interactions with the IASB

Although, as noted above, there was widespread support for the continued involvement of the FASB in the development of standards, many commenters sought greater clarity regarding the specific role and authority the FASB would have in its interactions with the IASB.[216]

Several commenters called for board interlocks between the IASB and the FASB.[217] Factors in support of interlocks cited by one commenter were: bringing greater technical support

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achieve highly comparable (but not necessarily identical) financial reporting standards among the most developed capital markets that are *based on* a common set of international standards.")

[212] Aflac (noting that dual compliance is not an adequate substitute for adoption of IFRS); CAQ (goal of the Staff Paper—for a "U.S. issuer complying with U.S. GAAP also to be in a position to assert that it is compliant with IFRS as issued by the IASB"—is impracticable); Crowe (noting that it is unclear how dual compliance could be reached).

[213] NYSSCPA (also requesting disclosure/reconciliation between US IFRS and IFRS as issued by the IASB).

[214] Cisco; Dell; Endurance; FEI; Lilly. See also AGA (differences likely, resulting from differing regulatory, political, and capital markets, making pure comparability unlikely in the short term—however, "resolv[ing] some of the more stark differences" still a worthy goal); CalCPA; Chamber; Dell; FAF; FirstEnergy; IMA.

[215] GT. Cf. Intel (principles-based standards have to be applied by people with local views, histories, etc. and in compliance with local laws, making it unclear that transparency can ever exist).

[216] AIA; Chamber (expressing concern with the lack of formal mechanisms by which the FASB would have a voice in the activities of the IASB, and suggesting that the FASB needs to have an elevated role from what is contemplated in the Staff Paper in light of recent proposed changes to IASB representation and due process—not simply as one of many comment letter writers); Duke (supportive of FASB authority but seeks more formal, fully-defined role than provided in Staff Paper); FAF (seeking nonvoting observer rights for FASB members on the IASB, regularly scheduled meetings between FASB and IASB, and mechanisms for U.S. participation in IASB due process through FASB); FIRCA; MBA (seeking a more proactive role in the standard setting process with the IASB than what is reflected in the Staff Paper); PICPA; Sandler (seeking the Boards as coequal partners in standard setting).

[217] Cisco (FASB representation on IASB); Blackstone (even if it leads to other countries requesting a similar relationship); FedEx ("FASB must have broad representation on the IASB"); FAF (FASB and other national standard setters having nonvoting observer rights with right to participate on the IASB); FEI; GE; GM; Hewitt (also staff exchanges); IMA (nominations to IASB from major capital market standard-setters); MBA (condition of U.S. adoption of IFRS); Microsoft (calling for "a more explicit relationship between the U.S. members of the IASB and the FASB").

for IASB, bringing greater understanding of U.S. issues to the IASB, enhancing FASB understanding of IASB's standards, decreasing likelihood of U.S. differences, and helping preserve FASB as a hedge against IASB failure.[218] Also, it would help serve the cause of investor protection.[219] One commenter, however, specifically advocated against interlocks, on the ground that the IASB's predecessor had regional/national representation and it was an impediment to the body's ability to function independently.[220]

Commenters asserted that FASB should be actively involved in the IASB due process; this should minimize differences.[221] However, one commenter questioned whether the IASB would accept the robust involvement of FASB in its standard-setting process.[222]

### E. FASB Exposure of IASB Standards

Several commenters commented about the mechanisms through which the FASB would endorse IASB standards, particularly with respect to the due process that FASB would put into place to consider the views of U.S. constituents.[223]

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218 FAF; FEI; GE.

219 FAF; IMA. Cf. CRMC (urging the SEC to request more investor seats at the table in accounting standard-setting at all levels).

220 KPMG (rather, IASB should have sufficient participation from individuals with U.S. market experience).

221 ABA (noting that MOU process illustrates the need for a strong and influential U.S. view, and worrying that the staff paper relegates the FASB to just another national endorsement body, which would lose that position of strength); IIF.

222 PICPA.

223 AIA; CAQ ("When assessing new IFRS standards for endorsement into U.S. GAAP, we suggest that the FASB's due process focus on whether the applicable IFRS: • Is of high quality, can be implemented in the U.S. environment (i.e., there are no legal or other structural impediments to its application in the United States) and can be endorsed in full without compromising U.S. investor protection; and • Has been incorporated correctly into the FASB Accounting Standards Codification . . . . The purpose of this due process would not be to re-debate technical accounting issues, as the FASB would have already had an opportunity to participate in the IASB's due process."); Chevron (FASB and IASB need to provide outreach and opportunity for comment early in the process of agenda development and in the development or modification of standards; FASB needs to seek comment on individual IFRS standards before incorporation into U.S. GAAP for unintended consequences and cost-effectiveness, as well as for U.S.-specific changes that may be necessary); CMS (current FASB due process should be followed as part of any IFRS endorsement protocol); Deloitte (encouraging SEC staff to look to AASB and EC endorsement standards for comparison); Exxon (incorporation process for each category should include due process/exposure document); FAF (conduct, in coordination with the IASB, due process, stakeholder outreach, and post-implementation review in the U.S.); FedEx (FASB needs due process and a separate comment period when new IFRSs are proposed to ensure concerns raised by U.S. issuers are heard; robust comment and redeliberations are critical to due process); ILCPA (critical for FASB to consider and solicit feedback from constituents before incorporating IFRS standard into U.S. GAAP); IMA; KPMG (FASB needs to develop its due process procedures, and expose transition plan pursuant thereto (along with its decision framework for incorporations)); McDonald's; Navistar (requesting process, similar to current standard-setting process, for constituents to be engaged and provide input during endorsement process); NYSSCPA.

### F. Interpretations – Role of IFRIC or EITF

Several commenters expressed concerns about the current state of accounting guidance at the IASB (i.e., through the IFRS Interpretations Committee, a.k.a. IFRIC), and what role the FASB's EITF would have in the Staff Paper Framework model.[224] One commenter advocated for a protocol to be established to determine when FASB would issue an interpretation and when it would go through IFRIC instead.[225]

Some commenters supported giving the EITF a role.[226] One commenter advocated that the EITF's role needed to be changed, to prevent it from issuing implementation guidance that could give rise to a U.S. flavor.[227]

In addition to the roles of the SEC and FASB in establishing standards under the framework in the Staff Paper, commenters raised concerns regarding the length of time that interpretive consultations with the IASB would take (in light of reporting deadlines), and while some asserted that the proposed role of the FASB and SEC would reduce uncertainty and allow for timely resolution of interpretive questions,[228] others questioned whether the interaction between the FASB and the IASB (or IFRIC) would resolve emerging issues in a timely way.[229] In light of these interpretive and timing concerns, some questioned whether investors are better served under any framework where the SEC's authority is compromised,[230] or the FASB's authority is potentially diminished.[231]

One commenter noted support for the Trustees' strategy review with respect to the internal interpretation process and the need to drive more consistent application of IFRS internationally.[232]

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[224] ABA; Chamber; CNA (address whether EITF will keep role or, if passed to the IFRIC, how the IFRIC process is robust enough to handle the volume and intensity of implementation issues); Exxon (noting IFRIC must take action to narrow diversity in application and must consider the U.S. legal and regulatory environment in so doing, and questioning whether FASB would take on the role of the EITF in the United States); FEI (citing engagement and effectiveness of interpretive body as key part of standards ecosystem); FIRCA; GM; IBM; IMA; KPMG; MBA.

[225] Exxon.

[226] See, e.g., Chamber (without EITF, unclear FASB and IASB interactions can "adequately consider and resolve emerging issues in a timely way"); FIRCA; GM (both IFRIC and EITF should play key roles); MBA (need for quickly-arising U.S. issues).

[227] Mazars (noting instead that the EITF should provide input to IFRIC instead of working directly with the FASB).

[228] See, e.g., NextEra.

[229] Chamber (asserting that disclosure required by the FASB is not an appropriate answer to problematic accounting or limitations of IFRS for U.S. issuers, and raising concerns regarding the apparent lack of continued existence of the FASB's EITF based on its absence from the Staff Paper). See also FIRCA; MBA.

[230] Ciesielski (raising the concern that, for example, if an EITF matter requires immediate attention, the SEC will be slower to act under the proposed framework than it otherwise would be).

[231] See, e.g., AIA.

[232] PwC. Cf. KPMG (noting comment letter on strategy review advocated for increased engagement from IFRIC).

## IV. Comments on Retention of U.S. GAAP

Retain U.S. GAAP. Thirty-three commenters expressly supported the retention of U.S. GAAP.[233] These commenters tended to focus on the assertions in the Staff Paper that retaining U.S. GAAP would minimize costs associated with modifying contracts with embedded references to U.S. GAAP[234] or with amending regulations referring to U.S. GAAP.[235] However, other commenters, while still supporting U.S. GAAP, noted that there would still be a need to review contracts,[236] or that regulations could still be an issue.[237] One commenter noted that, technically, retaining U.S. GAAP is the only way to implement a phased approach.[238]

Do Not Retain U.S. GAAP. One commenter expressly did not support the retention of U.S. GAAP, because using "IFRS" would send a message of U.S. commitment to international standardization of financial reporting.[239]

## V. IFRS Option

The Staff Paper did not expressly solicit comment on any potential IFRS Option.[240] Nonetheless, many commenters raised the issue of their own accord.

Thirty-six commenters supported an option for some companies to apply IFRS.[241] Most of these commenters supported extending an option to any company that wanted to move more

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233 ADM; AGA; AIA; CFA; Chamber; Constellation; CNA; CSBS; Dell; Deloitte; Exxon; FAF; FEI; FHFA; GM; Hewitt; IMA; KeyCorp; KPMG; McDonald's; McKesson; MS; MSCPA; Navistar; NYSBD; NYSSCPA; Pfizer; PPL; PwC; TEI; UPC; URS; VSCPA.

234 Chamber; CNA; Deloitte; Exxon; FEI; Hewitt; IMA; KeyCorp; KPMG; McDonald's; Navistar; PwC; URS; Verizon.

235 Chamber; CNA; CSBS (no change to laws referring to GAAP, and alleviates problems with FDICIA's requirement for "no less stringent" regulatory accounting); Deloitte; Exxon; FEI; FHFA; Hewitt; KeyCorp; KPMG; McDonald's; Navistar; NYSBD (same as CSBS); NYSSCPA; PwC; TEI (tax regulations); Verizon.

236 Exxon (because IFRS has different recognition and measurement attributes, changes may still be necessary); Navistar; PICPA (asserting that many contracts will need to be adjusted in light of the substantive changes, even if "U.S. GAAP" remains.); TransCanada (noting that the change to IFRS could substantially impact compliance with contractual covenants and other terms and conditions of contracts, necessitating revision of contractual terms).

237 AIA (which notes that while keeping U.S. GAAP will mitigate some of these issues, for U.S. government contractors it raises concerns about (a) additional complexities and costs in making adjustments under the cost accounting to which they are subject and (b) could change the measurement, assignment, and allocation of the costs); Navistar.

238 FEI.

239 Debuque. Cf. BNY.

240 Staff Paper at 3 ("[T]he consideration of an option is beyond the scope of this Staff Paper . . . .").

241 ABA; ACCA; ADM (in full or for individual MOU standards); Aflac; AFP; AICPA (whether or not the SEC takes an endorsement or convergence approach, issuers should be given the IFRS Option); Alcoa; Ameriprise (different time tables for different types of entities may be appropriate in the interim); CalCPA; Citi; Cohn; Deloitte; FHFA; Ford; Goodyear; Hewitt; HP; HSBC; IBM; IIF; ILCPA; KPMG; Lilly; McMurtry; MS; NYSSCPA; Northrop; OHCPA; PCI; PICPA; Praxair; PwC (beginning roughly in 2015, to give time to satisfy

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quickly than a broader incorporation approach.[242] However, some commenters proposed to limit the option to certain categories—issuers of a certain size or in a certain industry,[243] or U.S. debt-only issuers that are subsidiaries of foreign companies reporting under IFRS[244]—or to make it available only on a case-by-case determination.[245] Two commenters did not directly support an option, but requested that the SEC study the issue.[246]

The rationale for support of an IFRS Option was chiefly that it would save costs by permitting companies who are prepared to adopt IFRS to do so, rather than having to sit through the transition (i.e., those companies who preferred the "big bang" approach could still make use of that, without disrupting the phased approach for others.)[247] Another popular rationale was that FPIs already have an option, so U.S. companies should have parity.[248] Other rationales included: (a) immediately streamline foreign accounting process (eliminate second set of books);[249] (b) increasing comparability among companies in global industries;[250] (c) help build U.S.

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enumerated conditions precedent, and to put in place systems and controls for IFRS); S&P; SIFMA; TMCC; UBS. Cf. Blackstone.

[242] ABA (although noting it was likely that only large banks would desire to do so); ACCA (to all, or limited per infra); ADM; Aflac; AFP; AICPA; Alcoa; CalCPA; Citi; Cohn; Deloitte; FHFA; Hewitt; IIF; ILCPA; MS; Northrop; OHCPA; PCI; S&P; SIFMA; UBS.

[243] ACCA (sectors where a majority of businesses are applying IFRS); KPMG; PwC (suggesting that the IFRS Option may be so limited). Cf. HP (citing need for IFRS Option by large companies with significant international presence and integrated IT systems); Lilly (noting that the SEC would need to decide which companies could use it and under what conditions; requesting that the SEC not use the Proposed Roadmap criteria); McMurtry; NYSSCPA (something larger (i.e., more representative sample) than Proposed Roadmap).

[244] HSBC; KPMG (citing as an example of a company that would have a "compelling reason" to use IFRS, and opposing the IFRS Option for other companies until it can be clear that dual compliance should be achieved); TMCC (noting that it is a domestic issuer of only debt (its equity securities are owned by its foreign parent) that will have to keep dual books—U.S. GAAP for the SEC and IFRS for its parent to satisfy its reporting obligations in its home jurisdiction—and so requesting an IFRS Option for "domestic non-equity issues that furnish abbreviated disclosure pursuant to Form 10-K General Instruction I(1) whose parent companies are foreign issuers that have adopted or are required by their home jurisdiction to adopt IFRS").

[245] KPMG (noting that companies with a compelling reason could use IFRS, and that the SEC should not establish a "mechanical or formulaic basis, such as that in the Proposed Roadmap, for determining which entities have a compelling reason").

[246] FEI; Pfizer.

[247] ADM; Aflac; Alcoa (defined 2 to 3 year period could be better); Citi; Deloitte; FHFA; Goodyear; IIF (easier on small issuers; lets market decide; going to be a significant strain on companies, so let them do it as they see fit); Lilly (companies have different structures and are at different levels of readiness); McMurtry; OHCPA; SIFMA. Cf. Blackstone.

[248] Aflac; AFP; AICPA; HP; IIF; ILCPA; Lilly; McMurtry; Northrop; Pfizer (advocating that the impact of the removal of the reconciliation should be reviewed to determine what the impact would be of permitting U.S. registrants to do this; without such a "comprehensive study" of how U.S. investors have dealt with the lack of a reconciliation for FPIs, "we would have to be skeptical of any cost/benefit statements associated with a conversion [i.e., big bang] approach"); S&P; UBS.

[249] ADM (efficiencies in changing systems, controls, and training); AFP; Ford; Goodyear; HP; Lilly; UBS.

[250] Alcoa; Deloitte; IIF; ILCPA (and comparability across periods); S&P.

regulatory infrastructure for IFRS;[251] (d) signal U.S. commitment to adoption of IFRS;[252] (e) facilitate investor education;[253] (f) facilitate auditor effectiveness;[254] (g) facilitate willingness to make judgments under IFRS;[255] (h) facilitate implementation for later-adopters;[256] or (i) would not impede the Commission's other efforts to incorporate.[257]

Commenters supporting the IFRS Option did, however, identify a number of difficulties in determining how an early adoption option would be executed. First, the identification of which IFRS to use (as issued by the IASB or as endorsed by the FASB at a point in time) and the sequencing of Category 3 standards will be important determinations prior to any optional "big bang" implementation date.[258] Second, if differences between IFRS as issued by the IASB and IFRS as endorsed by the FASB emerged, who can use which standards? Two commenters suggested that the SEC should consider how to address this issue, including potentially forcing these entities to apply the FASB version, or make supplemental disclosure—balancing between costs on the issuers and need by investors for disclosure.[259] Two commenters suggested that the option should include the ability to elect either full IFRS (presumably as issued by the IASB), or IFRS as modified by U.S. GAAP, until the convergence has been completed.[260] Third, some commenters noted that an option would have an adverse impact on comparability, but were willing to sacrifice comparability temporarily in order to bring IFRS about, and noted that global comparability may be enhanced.[261] Fourth, some commenters noted that entities would have to identify which standard they are following, and provide a reconciliation from IFRS to U.S. GAAP to address the material differences that will exist between the two standards.[262] And fifth, one commenter noted that regulations and financial documents may specify the use of U.S.

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[251] AFP; Deloitte; HSBC S&P.

[252] IIF; S&P; UBS. Cf. AICPA.

[253] Deloitte; HSBC; S&P.

[254] Deloitte.

[255] Deloitte.

[256] ABA (IFRS Option is like a pilot program); Cohn; Deloitte; FHFA.

[257] OHCPA. Cf. AICPA (limited number of companies would choose it).

[258] Alcoa.

[259] ADM (suggesting disclosure to inform investors about impact of IFRS Option on particular company); Deloitte. Cf. NYSSCPA (exact presentation mechanics would need to be worked out).

[260] OHCPA; Zeff. See also, McMurtry (suggesting a choice to use US GAAP or IFRS, with a transition period where a reconciliation is required if moving to IFRS, based on the fact that foreign issuers already use IFRS without reconciliation).

[261] Citi; Goodyear; IIF.

[262] AFP; NYSSCPA (must reconcile). But see Aflac (no reconciliation should be required); IBM (no reconciliation); Lilly (noting that reconciliation in Proposed Roadmap was so onerous that companies may not have seen any benefits in exercising the option).

GAAP; the commenter stated that "U.S. GAAP [should] acknowledge IFRS as an acceptable method of reporting" to "correct the problem."[263]

On the other hand, a number of commenters stated that they specifically did not support an early adoption option.[264] Commenters objected to early adoption by some companies on the grounds that comparability would be damaged.[265] Two commenters did not support an IFRS Option because they argued that it would be tantamount to an irrevocable commitment to the full adoption of IFRS, thereby negating one of the chief advantages of the Staff Paper Framework.[266] Two commenters believed more study was necessary on the merits and disadvantages of providing an option.[267] Another commenter noted that the Commission needed to be assured that IFRS incorporation would be a success—including that exceptions are indeed rare—before any company could be provided the IFRS Option.[268]

## VI. Small/Domestic Companies

Several commenters believed that greater focus needed to be given to small issuer issues.[269] Costs to some smaller or primarily US-based companies were recognized as a potential basis for phased adoption (by size, for example) of U.S. registrants.[270] One commenter proposed that small companies (below a certain market capitalization) should have the option to defer adoption for two years.[271] Others argued that a permanent option to adopt IFRS for U.S. companies but no requirement to do so is necessary to recognize the costs such adoption would pose on U.S. companies with no foreign operations.[272] One commenter noted that the costs of

263 AFP.

264 CalPERS; Ciesielski; CRMC (all optionality in accounting, both application and standards, should be eliminated because it hurts comparability); GM; IMA; TDS; URS; Verizon; Zimmer.

265 Ciesielski; TDS; URS (degrade quality, comparability, and transparency); Verizon. Cf. SIFMA (true, but flexibility is more important). But cf. Lilly (noting FPIs do it).

266 IMA; URS.

267 Chamber (IFRS Option "should also be investigated to determine if such a path would be beneficial for investors and not result in an adverse balkanization of American financial reporting systems"); FEI.

268 GM.

269 See, e.g., ICBA (small companies have less resources even to figure out the impact of what the change would be, much less to implement it).

270 Alcoa; Chamber (proposing the creation of an advisory group to assist the Commission in identifying costs of mid-sized and smaller companies); Ford; PCI.

271 Hewitt. See also supra re: 404(b) approach. But see Zimmer ("all companies should be required to comply on the same effective date").

272 FIRCA (any transition process to IFRS needs to be designed to mitigate the costs, especially for smaller companies and those without international operations, to the maximum extent possible because they will derive no benefits); PICPA; Praxair; SIFMA; Southern; Zions (seeking an exemption for small public companies, instead permitting them to use U.S. GAAP, IFRS for SMEs, or some other simplified accounting framework).

applying IFRS going forward (i.e., not just transitioning to it) are prohibitive, particularly with regard to the requirement to fair value.[273]

## VII. Comments on Specific Issues Potentially Impacted by the Framework

Various commenters expressed views on a variety of issues that could be impacted by any decision by the Commission to incorporate IFRS.

### A. Investment Companies

One commenter took the opportunity to reiterate the request for U.S. investment companies to be excluded from any transition to IFRS,[274] while another requested that the FASB and SEC not rush to abandon the industry specific guidance for investment companies.[275]

### B. Specific Accounting Issues

One commenter noted that small, seemingly technical issues—pointing out the evaluation of whether transfers of financial assets would qualify for derecognition—can have unforeseen significant/material effects on companies.[276] A variety of other specific issues that were the subject of comments are set out below.

#### 1. LIFO

Several commenters sought to ensure that the LIFO method accepted under U.S. GAAP (but not IFRS) is preserved because of the potential tax impact: the IRS allows LIFO for tax purposes only if the company also uses it for financial reporting purposes, and so eliminating LIFO from U.S. GAAP would amount to its elimination under the Internal Revenue Code as well.[277] These commenters cited the punitive impact this would have.[278] One commenter pointed out that the Staff Paper did not address what would happen with LIFO, but that it would oppose the Staff Paper Framework if it resulted in a significant income tax penalty for the company.[279] Another commenter noted that LIFO was an example of an existing difference that

[273] Zions (discussing burden of generating internal estimates that can be relied on by users, as well as cost of actuaries and valuation consultants).

[274] ICI (providing extensive description of why IFRS for investment companies is subpar, and noting the need for either FASB or SEC to maintain GAAP for investment companies if other issuers transition to IFRS).

[275] SIFMA.

[276] Cisco.

[277] API; Chamber; McKesson; TLIFOC.

[278] API, McKesson.

[279] Chevron. Cf. Cohn (Commission needs to figure out what to do with this given financial hardship that may arise).

seemed unlikely to be changed, and thus would preclude assertion of dual compliance with IFRS and U.S. GAAP.[280]

### 2. IAS 37

Commenters voiced concerns regarding the viability of IAS 37 (contingencies) in the American legal system,[281] and pointed out that extensive efforts may be necessary to align the lawyer-accountant "treaty" with the provision recognition model under IFRS.[282]

### 3. IAS 16/Componentization

Several commenters voiced concern regarding whether IAS 16 would adequately address the issues of the railroad industry—any changes to PP&E accounting could have significant impact on the railroad industry, and group accounting for homogenous assets is the only practical way to work, as opposed to the componentization approach of IAS 16.[283] One commenter addressed more generally the differences between U.S. GAAP and IFRS on PP&E accounting.[284]

### 4. FAS 71 (Regulated Assets)

Several commenters noted the need for U.S. GAAP to continue to provide for rate-regulated accounting, given the appropriateness of regulatory assets and liabilities in describing the economic effects of the rate-making process and the economic substance of transactions of companies operating in the rate-regulated space, as well as the significant write-offs of regulatory assets that could occur if a standard is adopted that does not recognize them.[285] One commenter also noted that regulators could compel rate regulated entities to keep a second set of books using rate-regulated assets; the regulatory books would diverge significantly from the GAAP/IFRS set of books.[286]

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[280] Crowe.

[281] Chamber; PICPA (certain IFRSs not appropriate for U.S. environment; IAS 37 is prime example).

[282] Navistar.

[283] AAR (attaching study on group method); CN; CP (attaching same study); NS; UPC (attaching same study). See also comments on IAS 16 issues in Prospective v. Retrospective section above.

[284] Chevron (raising a similar question on asset impairment).

[285] AGA (citing Edison Electric Institute's White Paper on the topic, and noting the reduction of equity, increased volatility, increased non-GAAP measures, and increase cost of capital formation that a mass write-off could cause—all passed on to rate payers); CMS; Duke; FERC ("[T]he SEC and the FASB staff should carefully examine and propose accounting mechanisms, similar to the mechanisms in SFAS 71 that now allow regulatory accounting and GAAP to converge."); FirstEnergy; PPL; Progress; Southern; TransCanada; Williams.

[286] AGA.

### 5. IAS 38

One commenter disagreed with the statement that a delay in the incorporation of IAS 38, Intangible Assets, would not be expected to have a significant effect on the comparability of accounting for intangible assets.[287]

### 6. Oil and Gas

Other commenters advocated for U.S. GAAP to retain oil and gas accounting because there is no equivalent standard in IFRS.[288] Two commenters noted that the IASB's experience with the oil and gas standard gives rise to doubts about the IASB's standard-setting process for industry-specific guidance, questioning why the IASB chose to adopt a novel, objectionable approach instead of well-worn, extensively-used U.S. GAAP approach.[289]

## C. Private Companies and Not-for-Profits

Several commenters took issue with the footnote in the Staff Paper asserting that it would not impact private companies.[290] Commenters were split about what to do about the small or private companies, however:

- One asserted that the SEC needed to set a timeline for incorporation of IFRS keeping in mind that it will affect the timetable for private companies.[291]
- Several asserted that the SEC needed to consider the issue, and particularly consider whether IFRS for SMEs should also be incorporated into the U.S. financial reporting system as part of the transition to IFRS.[292]
- Others suggested that at a minimum the Commission needed to consider the impact on non-public and not-for-profit entities of its decision in light of the significant cost and limited (if any) benefits.[293]

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[287] Ford.

[288] API; Exxon; Williams.

[289] Chevron; Exxon (SEC disclosures are "well understood and accepted" and IASB "would be well-served" to adopt same).

[290] AFP; AIA; AICPA; CalCPA; Deloitte; GT (noting that the SEC's addressing this issue may "not be optimal" because of its jurisdiction, but asserting SEC should work with other relevant entities on the issue); Hewitt; ILCPA; MBA; MSCPA (noting that whatever the Commission does on IFRS will trickle down to non-issuer companies); NYSBD; NYSSCPA. Cf. PICPA (if IFRS goes forward, immediate establishment of a separate standard-setter required).

[291] MSCPA.

[292] AFP (suggesting that the FAF should put the Blue Ribbon Panel's recommendations on hold, and then if the SEC is moving toward IFRS, the FAF should adopt IFRS for SMEs); CalCPA; GT; Hewitt; ILCPA (noting that it would bear on the FAF's response to the Blue Ribbon Panel, and on the creation of a separate board to set standards for private entities). But cf. NYSBD; NYSSCPA.

- One suggested that the FASB should reach out to private companies to determine whether to modify IFRS as endorsed into U.S. GAAP to make them suitable for small companies, and to determine the time and cost to transition to an IFRS-based U.S. GAAP.[294] By contrast, another two commenters pushed for private company standard-setting to be taken from FASB and given to a new board.[295]

- One Canadian commenter asserted that a separate set of U.S. GAAP for small enterprises, like Canadian ASPE, could be provided, giving them the option of using that or IFRS.[296]

One commenter noted that the Staff Paper Framework would leave FASB in a position of being able to consider modifications to accounting standards that may be appropriate for private companies.[297] Another commenter noted that the not-for-profit area is even more unresolved than that of small companies; the trustee strategy review found demand for consistent standards, but the IASB will not be working on these for a while, so there will be an interim demand to continue using U.S. GAAP for conduit bond obligors.[298]

### D. Foreign Private Issuers

Commenters were concerned that the Staff Paper Framework process would have some effect on FPIs' ability to use IFRS as issued by the IASB for their financial reporting.[299] A few commenters suggested that the Commission could assess whether to require FPIs to adopt IFRS as endorsed by the FASB, or to require FPIs to prepare disclosure/reconciliation between IFRS as issued by the IASB and IFRS as endorsed by the FASB; that said, however, either requirement would be in tension with the Commission's 2007 action to permit IFRS as issued by the IASB without a reconciliation.[300] Another commenter noted that FASB should analyze why, if it

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293 AIA; Ameriprise (asserting that all companies, including both public and private, need to be kept on the same set of standards, to promote comparability); MBA; NYSSCPA.

294 Deloitte. See similarly IMA (FASB needs a special cost-benefit analysis for private companies when incorporating IFRS standards); NYSBD (private companies can work with FASB to move "in step with SEC registrants" towards IFRS).

295 AICPA (supporting recommendations of Blue Ribbon Panel, and noting that FASB should just focus on public company standards); PICPA.

296 CBA. See also GT (noting other jurisdictions have "maintained differential reporting for non-listed companies"). But see NYSBD (opposing bifurcation of standards between public and private companies because comparability would be impaired; comparability important for prudential supervisors because it enhances the ability to identify outliers).

297 IMA.

298 GT.

299 Deloitte; HSBC (should not require use of jurisdictional variant for FPIs).

300 CalCPA (supporting a reconciliation back to "US IFRS"); Deloitte; NYSSCPA (same as CalCPA).

adopts a difference in the interest of U.S. investors, FPIs should be able to continue to use the IASB standard.[301]

### E. Presentation/Reporting Issues

Four commenters suggested that the Commission reduce the number of years of comparative information in annual reports on Form 10-K from three years to two years because investors don't rely on it and it would reduce work on retrospective application.[302] But one analyst commenter requested full three years of restated income and cash flow statements and two years of statement of financial position in the year an IFRS accounting change is adopted.[303] Two commenters requested relief from the five year presentation of selected financial data in Form 10-K.[304] One commenter questioned how comparatives would be presented assuming a prospective treatment.[305]

### F. Government Contracting

Several commenters expressed concerns regarding a move to principles-based accounting on Federal Acquisition Regulation and government contractors.[306] The concern is that FAR's cost accounting standards incorporate U.S. GAAP in several respects, so it is unclear how that will be transitioned to IFRS—whether it will, or whether dual books would have to be kept.[307] Thus, two commenters requested that the SEC work with the IRS, DOD, and GSA to resolve the cost accounting issue, including hopefully a concurrent effective date that would mirror the Commission's determination.[308]

### G. Internal Controls

One commenter pointed out a risk to internal controls reporting, as many companies are not familiar with IFRS or its application; resources to establish effective internal controls and to audit them are lacking.[309] One commenter supported the Staff Paper Framework for pursuing incorporation in a practical manner that would reduce the impact on internal controls.[310]

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[301] Pfizer. But cf. CalCPA (not supporting requiring issuers to follow US IFRS).

[302] Emerson (one year of comparative data); Exxon (requesting Commission selectively reduce the number of comparative periods required); Lilly (noting it would reduce investor confusion, give companies more time to prepare, and give SEC more time to finalize Work Plan); Zimmer.

[303] S&P.

[304] ADM; FedEx.

[305] Verizon.

[306] AIA; Northrop; URS.

[307] Northrop. Cf. AIA (IFRS could change measurement, assignment, and allocation of costs in cost accounting).

[308] AIA; Northrop.

[309] ABA.

[310] Microsoft.

### H. Legal issues

Four commenters supported legal reforms to align with IFRS's principles-based approach: the SEC should allow good faith judgments to stand and avoid second-guessing management and auditors; the SEC should also use its influence to drive legal reform, since that drives the need for detailed accounting standards.[311] One commenter noted that retaining FASB would help mitigate risks in applying principled-based accounting in a "highly litigious business landscape."[312]

## VIII. Miscellaneous Comments

One commenter requested that an analysis of bank impairment reporting during the recent financial crisis be provided.[313]

One commenter criticized the FASB's current standard-setting process, noting the extensive post-implementation issues, complexity, lack of field-testing, and absence of a comprehensive accounting and disclosure framework.[314] Another commenter noted that the FASB and IASB should merge their conceptual framework, to increase the likelihood of converged standards.[315]

Another commenter requested that, in light of the numerous accounting convergence projects, proposed rulemakings of the PCAOB, and Dodd-Frank related rulemakings, the comment period on the Staff Paper remain open to allow stakeholders adequate time to contemplate it.[316]

One commenter noted the need to work with the IASB in developing XBRL for IFRS.[317] One commenter asserted the need to translate IFRS into U.S. English.[318] One commenter asserted that the eventual FASB Codification should be amended to incorporate pure IFRS standards, followed by an IFRS differences codification (separately setting out all U.S. differences).[319]

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311 AICPA; CSBS, NYSBD; NYSSCPA.

312 Zions.

313 Sandler.

314 Pfizer.

315 CNA. Cf. NYSSCPA (need to address what happens to FASB conceptual framework if the IASB's is adopted through IAS 8).

316 Chamber (supplemental letter dated July 22, 2011).

317 Hewitt.

318 PICPA.

319 NYSSCPA (the alternative being form of codification where sometimes it is not readily determinable from the local authoritative literature what differences do exist between IFRS as issued by the IASB and the local, nearly converged, variety, like Australia).

One commenter asserted that a full cost-benefit analysis needed to be performed in order to comply with President Obama's Executive Order.[320]

Other commenters requested more roundtables, targeted at larger global financial institutions[321] or issuers and rulemakers.[322]

* * *

This comment summary reflects comments received through December 31, 2011.

[320] Chamber.

[321] IIF.

[322] Northrop (to resolve financial accounting and tax/cost accounting differences).

## Appendix A: List of Commenters

| Commenter/Affiliation | Abbreviation | Date | Type |
|---|---|---|---|
| **Association of American Railroads** | AAR | July 26, 2011 | Association |
| **American Bankers Association** | ABA | August 1, 2011 | Association |
| **Association of Chartered Certified Accountants** | ACCA | July 29, 2011 | Association |
| **Association for Financial Professionals** | AFP | July 29, 2011 | Association |
| **American Gas Association** | AGA | July 30, 2011 | Association |
| **Aerospace Industries Association** | AIA | July 26, 2011 | Association |
| **American Institute of Certified Public Accountants** | AICPA | August 17, 2011 | Association |
| **American Petroleum Institute** | API | August 8, 2011 | Association |
| **California Society of Certified Public Accountants** | CalCPA | July 29, 2011 | Association |
| **Center for Audit Quality** | CAQ | July 28, 2011 | Association |
| **Canadian Bankers Association** | CBA | July 29, 2011 | Association |
| **CFA Institute** | CFA | August 30, 2011 | Association |
| **U.S. Chamber of Commerce** | Chamber | July 22, 2011 | Association |
| **U.S. Chamber of Commerce** | Chamber | July 28, 2011 | Association |
| **Council of Institutional Investors** | CII | July 31, 2011 | Association |
| **Conference of State Bank Supervisors** | CSBS | July 30, 2011 | Association |
| **Financial Accounting Foundation** | FAF | November 15, 2011 | Association |
| **Financial Executives International** | FEI | August 2, 2011 | Association |
| **Financial Instruments Reporting and Convergence Alliance**[323] | FIRCA | July 28, 2011 | Association |

[323] FIRCA consists of the American Council of Life Insurers, Council of Federal Home Loan Banks, CRE Finance Council, Group of North American Insurance Enterprises, Mortgage Bankers Association, National Association of Real Estate Investment Trusts, Property Casualty Insurers Association of America, The Financial Services Roundtable, The Real Estate Roundtable, and the U.S. Chamber of Commerce.

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|---|---|---|---|
| **Institute of Chartered Accountants in England and Wales** | ICAEW | July 26, 2011 | Association |
| **Independent Community Bankers of America** | ICBA | July 25, 2011 | Association |
| **Investment Company Institute** | ICI | July 22, 2011 | Association |
| **Institute of International Finance** | IIF | May 2, 2011 | Association |
| **Institute of International Finance** | IIF | July 29, 2011 | Association |
| **Illinois CPA Society** | ILCPA | July 31, 2011 | Association |
| **Institute of Management Accountants** | IMA | August 2, 2011 | Association |
| **Mortgage Bankers Association** | MBA | July 29, 2011 | Association |
| **Massachusetts Society of Certified Public Accountants** | MSCPA | July 31, 2011 | Association |
| **National Association of State Boards of Accountancy** | NASBA | July 31, 2011 | Association |
| **New York State Society of Certified Public Accountants** | NYSSCPA | July 28, 2011 | Association |
| **Ohio Society of Certified Public Accountants** | OHCPA | July 22, 2011 | Association |
| **Property Casualty Insurers Association of America** | PCI | July 31, 2011 | Association |
| **Pennsylvania Institute of Certified Public Accountants** | PICPA | July 28, 2011 | Association |
| **Securities Industry and Financial Markets Association** | SIFMA | July 28, 2011 | Association |
| **The Clearing House Association LLC** | TCHA | July 29, 2011 | Association |
| **Tax Executives Institute, Inc.** | TEI | August 25, 2011 | Association |
| **The LIFO Coalition** | TLIFOC | August 12, 2011 | Association |
| **Virginia Society of Certified Public Accountants** | VSCPA | July 25, 2011 | Association |
| **Archer Daniels Midland Company** | ADM | July 29, 2011 | Company |
| **Aflac Incorporated** | Aflac | July 29, 2011 | Company |
| **Alcoa Inc.** | Alcoa | July 22, 2011 | Company |
| **The Allstate Insurance Company** | Allstate | August 1, 2011 | Company |

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|---|---|---|---|
| **Ameriprise Financial, Inc.** | Ameriprise | July 29, 2011 | Company |
| **Ball Corporation** | Ball | July 29, 2011 | Company |
| **The Blackstone Group** | Blackstone | July 29, 2011 | Company |
| **BNY Mellon** | BNY | July 29, 2011 | Company |
| **Chevron Corporation** | Chevron | August 1, 2011 | Company |
| **Cisco Systems, Inc.** | Cisco | July 29, 2011 | Company |
| **Citigroup, Inc.** | Citi | July 29, 2011 | Company |
| **CMS Energy Corporation** | CMS | July 29, 2011 | Company |
| **Canadian National Railway Company** | CN | July 29, 2011 | Company |
| **CNA Financial Corporation** | CNA | July 29, 2011 | Company |
| **Constellation Energy Group Inc.** | Constellation | July 29, 2011 | Company |
| **Canadian Pacific** | CP | July 29, 2011 | Company |
| **CSX Corporation** | CSX | July 28, 2011 | Company |
| **Dell, Inc.** | Dell | July 22, 2011 | Company |
| **Duke Energy Corporation** | Duke | July 27, 2011 | Company |
| **Emerson Electric Co.** | Emerson | July 28, 2011 | Company |
| **Endurance Specialty Holdings Ltd.** | Endurance | July 31, 2011 | Company |
| **Exxon Mobil Corporation** | Exxon | July 29, 2011 | Company |
| **FedEx Corporation** | FedEx | July 29, 2011 | Company |
| **Federal Home Loan Bank of Dallas**[324] | FHLB | July 29, 2011 | Company |
| **FirstEnergy Corp.** | FirstEnergy | July 28, 2011 | Company |
| **Ford Motor Company** | Ford | July 26, 2011 | Company |
| **General Electric Company** | GE | August 9, 2011 | Company |
| **General Motors Company** | GM | August 17, 2011 | Company |
| **The Goodyear Tire & Rubber Company** | Goodyear | August 3, 2011 | Company |
| **Hess Corporation** | Hess | July 29, 2011 | Company |
| **Hewlett-Packard Company** | HP | July 28, 2011 | Company |
| **HSBC Holdings Plc** | HSBC | July 31, 2011 | Company |
| **IBM Corporation** | IBM | July 28, 2011 | Company |
| **Intel Corporation** | Intel | July 25, 2011 | Company |

[324] On behalf of all the Federal Home Loan Banks

| | | | |
|---|---|---|---|
| **KeyCorp** | KeyCorp | July 20, 2011 | Company |
| **Eli Lilly and Company** | Lilly | August 19, 2011 | Company |
| **McDonald’s Corporation** | McDonald’s | July 27, 2011 | Company |
| **McKesson Corporation** | McKesson | July 29, 2011 | Company |
| **Michael Baker Corporation** | MBC | May 27, 2011 | Company |
| **Microsoft Corporation** | Microsoft | July 31, 2011 | Company |
| **Morgan Stanley** | MS | July 29, 2011 | Company |
| **Navistar International Corporation** | Navistar | July 29, 2011 | Company |
| **NextEra Energy, Inc.** | NextEra | July 31, 2011 | Company |
| **Northrop Grumman** | Northrop | July 29, 2011 | Company |
| **Norfolk Southern Corporation** | NS | July 29, 2011 | Company |
| **Pfizer Inc.** | Pfizer | July 29, 2011 | Company |
| **PPL Corporation** | PPL | July 29, 2011 | Company |
| **Praxair, Inc.** | Praxair | July 28, 2011 | Company |
| **Progress Energy, Inc.** | Progress | July 31, 2011 | Company |
| **SanDisk Corporation** | SanDisk | July 29, 2011 | Company |
| **Southern Company** | Southern | July 20, 2011 | Company |
| **Telephone and Data Systems, Inc.** | TDS | July 29, 2011 | Company |
| **Toyota Motor Credit Corporation** | TMCC | June 24, 2011 | Company |
| **TransCanada Corporation** | TransCanada | August 3, 2011 | Company |
| **UBS AG** | UBS | July 29, 2011 | Company |
| **Union Pacific Corporation** | UPC | July 28, 2011 | Company |
| **URS Corporation** | URS | July 28, 2011 | Company |
| **Verizon Communications, Inc.** | Verizon | July 25, 2011 | Company |
| **The Williams Companies, Inc.** | Williams | August 9, 2011 | Company |
| **Zimmer Holdings, Inc.** | Zimmer | July 29, 2011 | Company |
| **Zions Bancorporation** | Zions | July 29, 2011 | Company |
| **BerryDunn** | BD | August 25, 2011 | CPA Firm |
| **J. H. Cohn LLP** | Cohn | July 29, 2011 | CPA Firm |
| **Crowe Horwath LLP** | Crowe | July 29, 2011 | CPA Firm |
| **Deloitte & Touche LLP** | Deloitte | August 8, 2011 | CPA Firm |
| **Grant Thornton LLP** | GT | July 29, 2011 | CPA Firm |

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|---|---|---|---|
| **KPMG LLP** | KPMG | July 29, 2011 | CPA Firm |
| **Mazars** | Mazars | August 2, 2011 | CPA Firm |
| **McGladrey & Pullen LLP** | McGladrey | July 29, 2011 | CPA Firm |
| **PricewaterhouseCoopers LLP** | PwC | August 1, 2011 | CPA Firm |
| **Federal Energy Regulatory Commission** | FERC | July 28, 2011 | Government |
| **Federal Housing Finance Agency** | FHFA | July 29, 2011 | Government |
| **New York State Banking Department** | NYSBD | July 29, 2011 | Government |
| **Chris Barnard** | Barnard | October 5, 2011 | Individual |
| **Anthony H. Catanach Jr.**<br>**J. Edward Ketz** | Catanach | June 2011 | Individual |
| **Bill G. Debuque, CPA** | Debuque | July 30, 2011 | Individual |
| **Conrad W. Hewitt** | Hewitt | July 28, 2011 | Individual |
| **Michael R. McMurtry, CPA** | McMurtry | July 12, 2011 | Individual |
| **Paul B. Miller**<br>**Paul R. Bahnson** | Miller | August 12, 2011 | Individual |
| **Rodney Sprenger, CPA** | Sprenger | June 6, 2011 | Individual |
| **Rice University** | Zeff | July 1, 2011 | Individual |
| **R.G. Associates, Inc.** | Ciesielski | June 29, 2011 | Individual |
| **California Public Employees' Retirement System** | CalPERS | August 3, 2011 | User |
| **Capital Research and Management** | CRMC | August 29, 2011 | User |
| **Ontario Teachers' Pension Plan** | Ontario | November 22, 2011 | User |
| **Standard & Poor's** | S&P | August 1, 2011 | User |
| **Sandler O'Neill + Partners, L.P.** | Sandler | July 29, 2011 | User |
| **State of Washington State Investment Board** | WSIB | September 16, 2011 | User |