CFA INSTITUTE | Centre for Financial Market Integrity

7 December 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-20-07
Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance With International Financial Reporting Standards

Dear Ms. Morris:

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre) of CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council (CDPC)[2], appreciates the opportunity to comment on the Concept Release issued by the U.S. Securities and Exchange Commission (SEC or Commission).

The CFA Institute Centre represents the views of investment professionals, including portfolio managers, investment analysts and advisors located in over 130 countries worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct.*

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[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With headquarters in Charlottesville, VA, and regional offices in New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 92,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 131 countries, of whom nearly 80,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council comprises individuals, who are investment professionals with extensive expertise and experience in the global capital markets, as well as CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures which meet the needs of investors.

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Introduction

We believe that the global capital markets, including the U.S. capital market, would be best served when all companies accessing these markets are using one set of high-quality financial reporting standards as a basis for preparing and issuing their financial reports to investors.[3] To promote this ultimate goal, CFA Institute (including its predecessor organizations) has been a long-time supporter of an international standard setting body, as well as an advocate for a fair and fully transparent business reporting model.[4]

As noted in our letter to the SEC dated 2 October 2007,[5]

> *Beginning in 1991, CFA Institute analyst/investor delegates participated directly in the standard-setting activities of the International Accounting Standards Committee (IASC). When the IASC was restructured to form the International Accounting Standards Board (IASB), we continued our support in a variety of ways.*

As an organization representing a global membership of investment professionals, we will continue supporting the IASB in its role as the standard setter of International Financial Reporting Standards (IFRS

1. Establishing the IASB as the only Standard Setter

To meet the global capital markets' needs for high-quality financial reports, we believe that the independence and effective operational structure of the IASB need to be maintained. Before the Commission relies on the IASB as the primary standard setter, it should ensure that the Board has: (1) independent, sustainable funding and (2) an appropriate balance of investor and/or investment professional representation on the Board and its current overseeing body – the IASC Foundation. In our view, these are essential underpinnings to the IASB's structure and its ability to withstand political and multi-jurisdictional pressures and provide investors with the necessary information that they need to make well-informed decisions and capital allocations. Such a global mandate will become increasingly more difficult as jurisdictions – including the US capital markets – adopt and rely on the information provided by financial reports prepared in accordance with IFRS.

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[3] Investors, as noted in this comment letter, include providers of financial capital: both current and potential investors, creditors and other such providers.

[4] Earlier this year, CFA Institute Centre issued its final version of *A Comprehensive Business Reporting Model: Financial Reporting for Investors* (July 2007) - http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2007.n6.4818. This paper is an update to an earlier paper issued in 1993 – *AIMR Report: Financial Reporting in the 1990s and Beyond*.

[5] Comment letter issued to the SEC in response to the File No. S7-13-07 Proposed Rule: *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP* http://www.cfainstitute.org/centre/issues/comment/2007/pdf/ifrs_elimination.pdf.

Although we see the potential benefits that may result from the movement to IFRS, we also see potentially significant obstacles to making improvements to the current information available to investors. To be truly effective, the IASB's due process for developing standards must become more efficient in addressing and resolving deficiencies in current principles of measurement, recognition, and disclosures.[6] Currently, several projects initiated to resolve such accounting deficiencies – e.g., leases, pension plans, and other off-balance-sheet (OBS) arrangements – are projected to take several years, some up to eight years, to resolve.

Since 1999, CFA Institute members have repeatedly expressed their need for better information through their responses to our surveys on corporate reporting and disclosures.[7] In three surveys conducted, respondents have consistently ranked information about OBS items as being the ***most important*** of the corporate disclosures listed in the survey questionnaire. In addition, respondents consistently ranked the ***quality*** of OBS disclosure near the bottom, resulting in the largest informational gap for those disclosures listed in the survey.

In less than eight years, the global capital markets have experienced significant crises – Enron in 2001; Parmalat in 2003; and the global credit crunch in 2007 – involving the accounting treatment of OBS structured investment vehicles and/or other derivative products. Clearly, the IASB's due process for setting standards needs to be sufficiently nimble to address such issues in a timely manner. The Commission should be confident that the IASB structure and operational procedures will not prevent or seriously impede the necessary improvements to financial statements and related disclosures.

2. Moving the US Capital Markets to IFRS

The major objective of the Concept Release is to permit domestic issuers free choice between IFRS and US GAAP. Our principle concern with the Concept Release is whether the allowing registrants the free choice between two sets of standards is in the best interest of investors. We believe that the Commission should continue to sanction only US GAAP for financial reporting for US registrants.

[6] In 2005, the IASCF concluded the review of its constitution, including the review of IASB's due process. As a result of this review, the IASB decided to incorporate additional steps (not specifically required by the constitution) into its due process for setting new standards and/or amending existing standards. Such action was largely motivated by preparers' and auditors' concerns, and was contrary to investors' needs for more timely standards.

[7] CFA Institute conducted three membership surveys to gauge the importance and current quality of corporate reporting and disclosures in December 1999, July 2003, and October 2007. These surveys targeted (on a statistically random basis) members who analyze companies' reports and/or make investment decisions as a recurring part of their professional work. The survey recipients reflected the global diversification of CFA Institute's membership at the time each survey was conducted. Results for the 1999 and 2003 surveys are available at - http://www.cfainstitute.org/centre/reporting/surveys.html. Results for the 2007 survey are still being analyzed and will be released at a later date.

To use the "choice" mechanism as a means of promoting the ultimate adoption and transition to IFRS within the US capital markets is a troubling policy approach. In our view, the endorsement and adoption of IFRS should occur within an orderly process of further convergence of GAAP and IFRS, including time for proper market understanding and experience with the standards, culminating in an official cut-over date. To allow such cut-over to occur randomly, at a company's choosing, introduces serious uncertainties and complexities, several of which we address below. Towards that end, there should be a clear and deliberative plan that has specified action steps and timeframes for achieving those steps. The ultimate goal should be to adopt IFRS as the ***only*** set of financial reporting standards used in the US capital markets.

During the interim period that such a plan is prepared and implemented, we would expect IFRS and US GAAP to continue to converge and improve. As a result, when US filers are required to convert to IFRS, such conversion will be easier for preparers, auditors, and users as there will be fewer differences than currently exist.

3. Serving Investors' Needs

As the primary overseer and regulator of US securities markets, it is important that the SEC's regulatory actions place investor protection as a priority. In our view, this includes an investor's ability to compare and contrast investment opportunities within these markets. We believe permitting US domestic registrants the option to select between IFRS and US GAAP (in their current state with existing differences) will at a minimum, confuse investors and make it quite difficult for even professional investors to perform their comparative analyses of these companies. As a result, what may be viewed as reducing complexity for multi-national firms in regards to their SEC reporting requirements is simply shifting complexity onto investors. The ultimate goal should be eliminating not redistributing complexity from the financial reporting system.

4. Maintaining the Current Level of Comparability

Globally, the US capital market represents the single largest, most-liquid capital market, and it has used **one** set of well-established financial reporting standards (i.e., US GAAP) for several decades.[8] By having all companies using the same set of accounting standards, has provided

[8] In contrast, the capital markets within the European Union (EU) had used multiple sets of financial reporting standards which were established by various national standard setters. To unify its reporting regime, the EU moved to a single set of standards by endorsing and adopting IFRS in 2005. The EU's decision was driven largely by the need to integrate and improve the efficiency of its internal capital markets as well as position these markets to compete with other global markets, such as those in the US. From the investor viewpoint, that decision was well-founded because it improved the comparability and consistency of information provided to those investors allocating capital within the EU markets.

investors the ability to perform some level of comparative analyses across companies and/or industries: a critical part of their investment decision-making process.

As noted earlier, CFA Institute conducts surveys of its global membership on a regular basis with regard to financial reporting matters. Three surveys were conducted in 2007 and the responses to these surveys highlighted a recurring theme – comparable and consistent information is very important. For example in one survey, **72%** of 531[9] respondents selected - ***No, companies should not be able to choose among alternative methods for measuring and recognizing similar assets and liabilities***.

Although this question does not directly address the SEC's Concept Release of allowing companies a choice between IFRS or US GAAP, we believe that the underlying reasons for respondents' selection does. Many of these respondents expressed concern about companies' motivation to select one alternative over another; and further noted that companies were more apt to select the alternative resulting in the best picture, or "cherry picking" the application of accounting choices, regardless of the underlying economics. Said differently, they expressed concerns about the use of options and management's ability to manipulate reported information.

Given the survey responses, we are troubled that the IASB continues to permit choices among alternative accounting options for the same transaction. Indeed, a key objective of setting and/or amending standards should be to eliminate the confusion that arises when identical transactions are accounted for differently. Yet, the standard that the IASB will soon issue on business combinations provides a choice in the accounting for minority interest.

5. Formulating a Clear Plan for IFRS

Instead of piecemeal adoption of IFRS in the US, we urge the SEC to develop a clear plan that benefits investors as well as domestic registrants. Such a plan is essential for establishing expectations and ensuring a smooth transition from US GAAP to IFRS. Other jurisdictions, such as Australia, Canada, and EU, had well-articulated plans for adopting IFRS as the only set of standards for preparing financial reports within their capital markets. Their plans established sufficient time for market participants to anticipate and prepare for the full transition from their national set of standards to IFRS.

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[9] The remaining respondents (or 28%) indicated that companies should be able to choose. Many respondents providing elaborative comments believe that there might be a need for different accounting treatments for different industries and/or industry sectors. However, they believe that such industry accounting should be applied consistently by all companies within a given industry or sector, i.e., companies would be limited to one accounting treatment for a particular item within a given industry or sector.

In a joint letter to the SEC, the FAF and FASB recommended that a "blueprint" be drafted for the full implementation and adoption of IFRS.[10] We support strongly the formulation of a detailed blueprint to build the sound foundation needed for using IFRS in US capital markets. In particular, we note the following points from their letter:

- *The blueprint should identify a target date or dates for completing the transition to IFRS along with interim milestones. The target date should allow adequate time to make the many necessary changes to the various elements of the U.S. financial reporting infrastructure (auditing standards, GAAP-based regulations, education systems, licensing requirements, etc.).*

- *The blueprint should identify the areas of IFRS that should be improved during the period of transition to IFRS by U.S. public companies. We believe the best way to make those improvements would be through the continued joint development of common standards by the International Accounting Standards Board (IASB) and the FASB. To complete the move to IFRS, the blueprint should outline the process by which we would adopt IASB standards in other areas "as is."*

We believe that such a plan should also address the following issues:

1. The development of XBRL for IFRS, which we understand lags behind the development of XBRL for US GAAP. We believe it would benefit both preparers and investors if the adoption of IFRS by U.S. registrants were accompanied by the use of XBRL.

2. The Commission's need to reconcile its statutory obligation to review financial statements used by public companies (and the reporting standards used to prepare these statements) with the reluctance of other nations whose firms report using IFRS to grant the Commission any authority over those standards.

Conclusion

We agree that all companies seeking capital within the US capital markets - both domestic and foreign - should use IFRS as the only set of financial reporting standards within a relative short period of time. However, this ultimate goal should be achieved by executing a clear and deliberative plan that establishes specific milestones and timeframes for their achievement. It should not be done through free choice between IFRS and US GAAP.

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[10] FASB-FAF comment letter addressed to Ms. Nancy M. Morris dated November 7, 2007.

We appreciate the opportunity to provide comments to the Commission and its staff regarding the Concept Release. If the Commissioners or their staff have questions or seek further elaboration of our views, please contact Georgene B. Palacky, by phone at 434.951.5326 or by e-mail at georgene.palacky@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director

/s/ Gerald I. White

Gerald I. White, CFA
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