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August 30, 2011

Mr. James L. Kroeker
Chief Accountant
Securities & Exchange Commission
100 F Street, N.E.
Washington, D.C.

Re: SEC Staff Paper, *Exploring a Possible Method of Incorporation* (File No. 4-600)

Dear Mr. Kroeker,

CFA Institute¹, in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment on the Securities and Exchange Commission (SEC) Staff Paper, *Exploring a Possible Method of Incorporation* (the “Staff Paper”) which was issued in connection with the SEC’s *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers* (the “Work Plan”).

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors worldwide. CFA Institute seeks 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.

¹ CFA Institute is a global, not-for-profit professional association of over 107,200 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom nearly 95,700 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 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 CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.



Executive Summary of CFA Institute Position on Staff Paper

Our position on the Staff Paper can be summarized as follows:

- 1) *Support for Single-Set of High-Quality and Investor Focused Global Standards* – Our membership supports the goal of a single-set of high-quality financial reporting standards worldwide. This support is premised on a strong investor focus and high-quality in terms of both the standard-setting process and the standards being promulgated. Our members have told us that when the objective of incorporation or convergence conflicts with the quality of an accounting standard, high-quality must take precedence. Members fully acknowledge and expect that an interim step in the process will likely be IFRS as a global reference point. IFRS with regional differences may not result in uniformity but it is a step forward in terms of greater comparability. Notwithstanding this interim solution, the pursuit of a single-set of high-quality global financial reporting standards as the ultimate objective should not be set-aside.

As we have previously commented, our support for IFRS incorporation has been conditioned upon an evaluation of IFRS relative to four criteria: 1) define and assess quality; 2) address infrastructure and governance improvements; 3) specify an enforcement mechanism; and 4) identify the endorsement process. The Staff Paper, while dealing with endorsement, should deal more directly with the issue of enforcement. However, the fundamental elements of the quality of IFRS and IASB infrastructure and governance improvements which the SEC has included in their Work Plan as the “characteristics of IFRS” should take precedence.

- 2) *Decision on IFRS Incorporation Is Premature Prior to SEC’s Completion of Work Plan* – Until such time as the SEC has completed the full analysis of the Work Plan, our view is that it is premature for the SEC to consider a method to incorporate IFRS. The SEC should take the time necessary to thoroughly complete the Work Plan and not be beholden to a 2011 decision date with respect to the U.S. incorporation of IFRS.

Both the SEC and investors need the information that would be gleaned from a full evaluation of the sufficiency of the development (i.e. quality) of International Financial Reporting Standards (IFRS) and the independence of their development (i.e. International Accounting Standards Board (IASB) infrastructure and governance improvements) before deciding whether and how IFRS should be adopted or incorporated into the U.S. financial reporting regime. This evaluation of, what the SEC has referred to as, the “characteristics of IFRS” has yet to be completed. This evaluation is an essential prerequisite to investor support for IFRS adoption/incorporation in the U.S.

- 3) *Key Observations/Considerations on SEC Staff Paper* – As it relates to the approach proposed in the Staff Paper we would make the following observations:
 - a) *Countries Should Maintain Endorsement Authority and Endorsement Criteria Should Be Pre-Established* – An endorsement-based incorporation approach would permit the U.S. to retain its sovereign right to set accounting standards in the U.S. which may work to protect investor interests; however, such endorsement criteria should be pre-established and not utilized to rectify quality concerns.
 - b) *Support Standard-by-Standard Review, Prefer Single Adoption Date* – Though we are supportive of a standard-by-standard review, our membership is divided on the matter of a single or staged adoption date. Our suggested approach would be that once the review of standards is complete there is a single adoption date for all of the reviewed standards. A single date adoption will create initial discontinuity, but we believe that this is preferable to a period of continuous discontinuity.
 - c) *Proposed Transition Creates Significant Information Discontinuity for Investors* – We believe the transition approach proposed in the Staff Paper suggests a significant period of information discontinuity and appears more preparer than investor focused because of the lack of comparability which will be generated by the approach and the suggestion that all new standards be adopted or incorporated prospectively.
 - d) *Strongly Oppose Prospective Adoption* – We are strongly against prospective adoption of standards without providing comparative information. Comparative information is essential for investor understanding and analysis.
 - e) *FASB and SEC Should Retain A Key Role* – Our view is that the FASB and SEC must maintain a significant, vital and authoritative role in the standard setting process and must be sufficiently funded to attract and retain quality personnel to accomplish their mission.
 - f) *Doubtful That Objective of U.S. GAAP Equivalence to IFRS Will Be Achieved* – We are doubtful that that equivalence of IFRS and U.S. GAAP will be achieved in the near term given the proposed approach and we believe the term U.S. GAAP should be retained until such time as there is equivalence between the two sets of standards

These positions are discussed in detail in the remainder of this letter.



CFA Institute's Historical Position on a Single-Set of High-Quality Global Accounting Standards

CFA Institute's response to the SEC's proposed method of incorporating IFRS into the U.S. financial reporting regime as outlined in the Staff Paper must be considered in the context of our historical position, and commentary regarding the need by investors for a single-set of high-quality global accounting standards.

CFA Institute Position in Support for the Premise of Global Accounting Standards

In recent years CFA Institute has surveyed its global membership regarding their support for a single-set of high-quality global accounting standards. The results of the surveys show that our membership overwhelmingly (over 90%) supports the premise of a single-set of high-quality global accounting standards as a goal to be ultimately achieved by standard setters and regulators around the world. The basis for this support is their expectation that IFRS will result in a common financial reporting language that improves transparency and enables investors to make comparisons among similar entities across jurisdictions. Investors believe that, for the IASB to become the custodian of a single set of global accounting standards, IFRS needs to meet certain conditions. That said, while members are supportive of the concept of converging to one international standard when conditions are appropriate, survey results have also shown that our membership sees the implementation of high-quality standards as taking precedence over convergence.

CFA Institute's Support for IFRS As the Global Accounting Standard Is Not Unconditional

As outlined in our 2010 commentary³, issued just prior to the release of the SEC's Work Plan, we believe there are four conditions to be met before IFRS should be considered for incorporation into the U.S. financial reporting regime. They are as follows:

- 1) ***Define and Assess Quality*** – Investors believe the SEC should define quality measures which will be used to judge the suitability of IFRS for U.S. financial reporting. Such quality measures should be established, and such standards judged, from an investor perspective, not from the perspective of preparers or prudential regulators, prior to adoption or incorporation.
- 2) ***Address Infrastructure and Governance Improvements*** – Investors believe that the SEC should ensure that the current infrastructure weaknesses of the IASB are addressed before deciding to move to IFRS. The weaknesses to address include:
 - a. clarifying that its primary mission is to provide investors with decision-useful information;
 - b. ensuring the independence of the IASB's funding;
 - c. increasing investor representation on the IASB and at the IFRS Foundation Trustee level;
 - d. reducing the size of the IASB so as to mitigate political negotiation and comprises that reduce the quality of standards; and
 - e. recognizing that global politics can diminish high-quality standards, and addressing how political pressures can be counterbalanced.
- 3) ***Specify An Enforcement Mechanism*** – Balanced, uniform, and consistent enforcement is an essential element of investor support for, and confidence in, any proposed incorporation of IFRS. Investors need the SEC to define how consistent enforcement will be achieved before it makes a final decision regarding use of IFRS in the U.S.
- 4) ***Identify the Endorsement Process*** – As a part of any IFRS incorporation decisions investors want the SEC to address the manner in which IFRS standards will be endorsed for use in the U.S.

³ CFA Institute Commentary (February 22, 2010); *U.S. Investor Perspectives on Revised SEC Roadmap on IFRS Adoption*; (http://www.cfainstitute.org/about/press/release/Pages/02222010_25570.aspx)



CFA Institute has reiterated these conditions in each of its writings regarding IFRS incorporation in the U.S. and we believe it is important to evaluate any possible incorporation approach in the context of whether such approach addresses these four conditions.

Investors Question Whether the Process Can Achieve the Premise

Events over the last several years have caused investors to question whether the premise of a single-set of high-quality global financial reporting standards can be achieved. Concerns have arisen over the independence of the IASB given its inability to withstand political pressures; the perceived lack of ability to consistently enforce the application of IFRS; differences in the endorsement of IFRS; the lack of sufficient investor focus and representation; and differences in views regarding the primary purpose of financial reporting. More recently there have been the challenges faced in achieving the 2006 Memorandum of Understanding (MoU), elimination or indefinite postponement of key MoU projects like Financial Statement Presentation and Financial Instruments with Characteristics of Equity and the missed June 30, 2011 deadline for completion of the MoU projects as well as Japan's deferral regarding a decision to adopt IFRS. Consequently, only approximately 60% of our members believe that the premise of a single-set of high-quality financial reporting standards is achievable.

CFA Institute Members Indicate IFRS with Regional Differences Is Most Likely Outcome

While our members believe that the premise of a single-set of high-quality global accounting standards remains an appropriate objective to pursue, they simultaneously believe the most likely interim outcome of the current process is IFRS as a global reference point rather than perfectly comparable standards across jurisdictions.

As it relates to the U.S., our members expect that the most likely outcome is the SEC's interpretation of IFRS.

Summary

As noted previously, CFA Institute's evaluation of any possible method of incorporation must be done in the context of the achievement of the four conditions for adoption, those being:

- 1) define and assess quality;
- 2) address infrastructure and governance improvements;
- 3) specify an enforcement mechanism; and
- 4) identify the endorsement process.

The SEC's Work Plan included two characteristics of IFRS which link closely to the first two of CFA Institute's conditions for adoption of IFRS. Accordingly, it is important to consider the progress on the Work Plan when considering this possible method of incorporation.



Status of the SEC’s Work Plan and the SEC’s Evaluation of the Characteristics of IFRS

Status of the Work Plan

Upon issuance of the Work Plan, the SEC indicated that two of its six areas of concern were associated with the sufficiency of the development (i.e. quality) of IFRS standards and the independence of their development (i.e. infrastructure and governance improvements). These two concerns – linked very closely to two of CFA Institute’s four conditions for adoption/incorporation of IFRS – referred to as “characteristics of IFRS” were to be evaluated prior to any incorporation decisions.

The SEC Staff has published one progress report – which essentially provides more detailed steps to be executed in completing the Work Plan without any conclusions – in October 2010 in connection with the execution of the Work Plan; however, there have been no other interim communications. Accordingly, investors have not been informed on the SEC’s views regarding the sufficiency of the development of IFRS and the independence of their development.

Condonement As An Incorporation Approach Is Premature Given Status of Work Plan

While the Staff Paper clearly addresses CFA Institute’s endorsement criteria, it requests comment on the possible method of incorporation, colloquially referred to as condonement, without the SEC having completed its Work Plan on these two very important characteristics of IFRS and without having addressed investor concerns regarding the uniformity and consistency of enforcement . Therefore, we believe it is premature for the SEC to consider possible approaches of incorporation of IFRS into the U.S. financial reporting framework.

It appears that possible incorporation approaches and endorsement criteria may be proposed as mechanisms to address deficiencies in the characteristics of IFRS or the lack of investor focus of the IASB. Although the condonement approach includes a standard-by-standard review of all U.S. GAAP standards and an evaluation of the IFRS alternative this cannot be considered a substitute for the execution of the Work Plan. While we support a standard-by-standard review, we do not believe the “convergence/endorsement” aspects of the proposed transition can act as a substitute for an evaluation of the sufficiency of the development and quality of IFRS. Additionally, we do not believe the condonement approach can mitigate deficiencies in the quality of IFRS or its development. This is particularly true when the stated objective/goal of the proposed approach is that U.S. issuers will be able to assert dual compliance with IFRS and U.S. GAAP.

Quality and Independence in IFRS Development Must Be Addressed Prior to Any U.S. Decision on Incorporation

CFA Institute has, in the past, expressed the view that, without a foundation of quality (including consistent enforcement and uniform endorsement and application) and independence in the creation of IFRS, other considerations related to U.S. adoption of IFRS are moot.

The goal of incorporating IFRS into the U.S. financial reporting regime should not be pursued at the expense of achieving high-quality accounting standards by either the IASB or the FASB. Explicitly, we want to emphasize our view that, when the goals of incorporation of IFRS and decision-usefulness are in opposition, enhancing quality through providing more decision-useful information must always take priority. Overall, our view is that quality, and decision-usefulness of information, should be paramount in the decision regarding whether to adopt or incorporate IFRS into the U.S. financial reporting regime. The adoption or incorporation of IFRS should not be rushed to accommodate artificial deadlines. When quality and independence are sufficiently high, incorporation should be thoughtfully pursued.



Relative to improving the quality, independence and transparency of IFRS for investors we believe the following would enhance the quality of IFRS:

- 1) unequivocally establish that the IASB's mandate is to serve investor information needs;
- 2) complete the conceptual framework;
- 3) reinstate and complete the financial statement presentation and financial instruments with characteristics of equity projects;
- 4) enhance disclosure requirements to eliminate inconsistent application of existing disclosure "principles;"
- 5) improve the interpretation process, increasing comparability of the application of IFRS worldwide;
- 6) increase responsiveness to user commentary on proposed standards;
- 7) increase investor representation on the IASB and include board members with finance and investment experience;
- 8) develop a funding mechanism which provides independence and stability; and
- 9) increase transparency regarding the degree to which IFRS has truly been adopted in various jurisdictions and require the quantification of the effect of differences from IFRS as promulgated by the IASB.

Summary

We believe the SEC needs to complete the steps within the Work Plan before deciding upon a method to incorporate IFRS into the U.S. financial reporting framework. Based upon its evaluation of the characteristics of IFRS and the decision-usefulness of the information to investors, it should, at that point in time, evaluate whether condorsement is the right approach to take towards IFRS incorporation.

The SEC should take the time necessary to thoroughly complete the Work Plan and not be beholden to a 2011 decision date with respect to the U.S. incorporation of IFRS into its financial reporting regime.

Though we believe a decision regarding this approach is premature, we have provided comments on the proposed condorsement approach for the SEC's consideration in the next section.



Summary of Our Views on “Condonement” As an IFRS Incorporation Approach

Overview of the Condonement Approach – As noted in the previous section, CFA Institute believes that it is premature to discuss the incorporation approach outlined in the Staff Paper. Quality should be the paramount objective of any process of financial reporting reform and the goal of IFRS incorporation should not be pursued at the expense of achieving high-quality accounting standards. We believe it is imperative for the SEC to first complete execution of the Work Plan and for the SEC to make a determination as to the quality of the IASB standard-setting process and the standards themselves as well as the suitability of the IASB’s infrastructure prior to discussions regarding how IFRS should be incorporated into the U.S. financial reporting framework.

As to the approach itself, we believe that any method using an endorsement-based approach to incorporate new IFRS standards into the U.S. financial reporting regime should pre-establish the endorsement criteria. We broadly agree with the roles outlined for the Financial Accounting Standards Board (FASB) and the SEC; however, as we describe more fully below, we believe the FASB should have certain additional roles to ensure that it appropriately protects U.S. investor interests. Our view is that it is essential that the FASB and SEC pre-establish the endorsement criteria so that investors and other stakeholders understand the criteria for deviations from IFRS. We are, however, concerned by elements of the transition method outlined in the possible approach. As more fully described below, we believe certain elements of the approach may create significant information discontinuity for investors.

Investor Focus Should Be Primary – During the endorsement phase of this approach (i.e. the steady state) the Staff Paper indicates that this method has the potential benefit of increasing investor protection by advancing U.S. perspectives in the international standard-setting process and having the ability to modify or reject standards that do not serve investor interests. However, much of the discussion of the transition period focuses on how gradual implementation of IFRS would be cost effective for issuers. We urge the SEC to ensure that in their consideration of the appropriate transition method investor interests should be given primacy – not those of the preparers or prudential regulators.

Countries Need to Maintain Endorsement Authority, Endorsement Criteria Need To Be Pre-Established and Regional Differences Must Be Transparent – The proposed approach permits the U.S. to retain the sovereign right to set accounting standards for U.S. issuers and the endorsement mechanism may work to protect investor interests when IFRS standards serve other than investor interests. The endorsement mechanism may, however, result in U.S. GAAP that differs from IFRS as issued by the IASB as well as other regional variants, thereby diminishing comparability (i.e. the principal benefit of a single-set of high-quality standards). For this reason, we believe it is important for the IASB and jurisdictions around the world to increase the transparency as to differences arising from their regional/local versions of IFRS. It is essential that investors be provided with a clear articulation of regional differences to provide them with the transparency needed to be able to quantitatively evaluate and price the impact of those differences, which diminish comparability.

We believe it is imperative that the SEC and FASB address the criteria for endorsement prior to the decision to transition to IFRS. Stakeholders need to know the degree to which the sovereign right to standard-setting will be retained by the SEC and FASB, the criteria for failing to endorse an IFRS standard and the extent to which implementation or interpretation guidance will act as an in-substance failure to endorse IFRS. Thresholds need to be pre-established such that stakeholders have a clear vision as to what will create differences in standards and the frequency with which the differences may arise.

The endorsement criteria should consider items such as the following:

1. *Evaluation of Standards Relative to Investor Primacy* – The primary purpose of financial statements is to provide decision-useful information to investors. Therefore, when evaluating a standard for endorsement consideration must be given to whether the IFRS standard meets the primary objective of financial reporting – that it is for investors rather than to serve prudential regulatory interests.
2. *Supports U.S. Interests* – The FASB and the SEC should assess whether the standard being considered for endorsement is consistent with the best interest of the U.S. capital markets. To the extent that the final standard does not meet the needs of U.S. investors, the standard should be modified for use in the U.S.
3. *Elimination of Optionality* – When an IFRS standard permits a choice of accounting methods, endorsement should result in a single requirement resulting in comparable, decision-useful information being provided to investors. If none of the options is investor friendly, the U.S. GAAP standard currently in-place should be retained or the FASB and/or the SEC should create a better standard.
4. *Supplementary Disclosure* – When an IFRS standard has inadequate disclosures, then endorsement should include allowing the FASB to require supplementary disclosures in order to provide decision-useful information to investors.
5. *Principles vs. Rules* – The FASB should consider whether the principles proposed in the standard being considered for endorsement can be consistently and uniformly implemented. To the extent that further clarification is needed, the FASB should refine the principles articulated.
6. *Implementation Guidance* – To the extent that principles are not sufficiently descriptive, the FASB should evaluate whether implementation guidance is necessary and issue as necessary.
7. *Previous U.S. Experience* – The FASB should consider when endorsing a standard whether the U.S. marketplace has previous experience with the application of the proposed principles. If so, the FASB should provide guidance, or change proposed standards, to preclude a repetition of previous market abuses.
8. *Politics vs. Quality* – The FASB should consider whether the standard being considered for endorsement was significantly altered, and quality substantially reduced, by the global politics surrounding the standard's development.
9. *High-Quality and Improvement* – The FASB should consider whether the standard being considered for endorsement is an improvement, but should not limit this evaluation to whether it is solely an improvement. The FASB should also evaluate whether the standard is of high quality.
10. *Convergence vs. Quality* – The FASB should have as an overarching endorsement principle that it will not endorse a standard for the sake of convergence if it does not improve, or at a minimum maintain, the quality of financial reporting already in-place.

This list is not meant to be all-inclusive. Rather, it is meant to be suggestions for consideration. It is important to note that the endorsement criteria during the transition phase may need to be different from those in a post-transition environment given the standard-by-standard review element of the transition phase. We reiterate that we do not believe that the endorsement criteria, particularly in the transition phase, should be a means of “fixing” low-quality standards. To the extent that the endorsement criteria have to rectify quality concerns, the question needs to be asked regarding the overall readiness of the standard for use in the U.S. marketplace.



FASB and SEC Should Continue to Play Key Roles in Protecting U.S. Investors Interests – We agree with the Staff Paper that the SEC and FASB should continue to maintain an important position in the establishment of international accounting standards. Many investors in U.S. registrants support a continued role for the FASB and SEC in order to represent U.S. interests in the standard-setting process and to act as a significant counterweight to the potentially different political interests and views which may arise in a global standard-setting arena. Further, investors in U.S. registrants feel even more strongly that the SEC should play an integral role in the global standard-setting process because of its historically higher enforcement threshold and their investor focused mandate.

We agree with the two principal roles (influencing and advocating for U.S. interests in the development of IFRS and endorsing IFRS and engaging in implementation and interpretation activities associated with IFRS) proposed for the FASB under the condorsement approach. The central question regarding the FASB’s role is how significant their influence will actually be – relative to their current engagement with the IASB – and when and how often they will choose not to endorse standards or issue implementation and interpretation guidance which results in differences from IFRS.

We believe the FASB can be an effective counterbalancing force to the IASB. Accordingly, we believe the FASB should have sufficient power and authority – combined with real illustrations of where this has been invoked – to provide an appropriate system of checks-and-balances to protect U.S. investor interests. In order to ensure the FASB remains a vital organization with the appropriate authority to protect U.S. interests, we believe it is essential that the SEC ensure that the FASB’s funding remains secure, independent and sufficient to achieve that vitality. Any consideration of redirecting the Sarbanes-Oxley mandated funding to the IASB should ensure the adequate funding of the FASB that will allow the FASB the ability to perform the roles outlined in the Staff Paper and retain their ability to acquire appropriate talent to accomplish its mission. The condorsement approach as outlined in the Staff Paper suggests that FASB would be precluded from proposing or developing new accounting standards. We do not believe this is appropriate. This ties the FASB’s hands and diminishes the FASB’s authority to protect U.S. jurisdictional interests. We believe the SEC should clarify when it is appropriate for the FASB to develop new accounting standards.

We agree that the SEC’s responsibilities should not change under the proposed approach. We do, however, believe the SEC’s authority may be diluted by the less direct and legally authoritative relationship it will hold with a global standard-setter. The extent to which the SEC will invoke its right to veto IFRS standards or issue interpretative guidance, which may protect U.S. investor interests but result in a U.S. variant of IFRS, should be clarified.

Supportive of a Review of All U.S. GAAP Standards and Evaluation of the IFRS Alternative – We agree that the FASB should review all U.S. standards to determine if IFRS has an appropriate alternative and then determine the appropriateness of replacing the content of existing U.S. GAAP with the content of IFRS. The FASB should also have the ability to modify or supplement IFRS to address unique U.S. perspectives or concerns when necessary for the protection of investors. However, as noted below, we believe there should be transparency regarding the nature of the differences between U.S. GAAP, or any regional variant of IFRS, and IFRS as issued by the IASB.



Transition Time Period May Be Prolonged – We are concerned by elements of the transition method outlined in the proposed approach as they may create significant information discontinuity for investors over an extended time period. We agree with the standard-by-standard review as noted above; however, when combined with periodic revisions to U.S. GAAP, as standards are reviewed and endorsed, this will result in continuous modifications to U.S. GAAP over a prolonged period of time, possibly five to seven years. We recognize that any manner of transition will create some interval of discontinuity, but this period of constant change, lack of comparability, and perhaps confusion for the investor community must be minimized. We urge the SEC to consider what transition method creates the maximum usefulness of information with the minimum amount of information discontinuity at the most reasonable cost for investors – rather than the primary concern being for preparers. While our membership surveys show divided opinions on this matter, our suggested approach would be that, once the review of standards is complete, there is a single adoption date for all of the reviewed standards. A single adoption date will create initial discontinuity, but we believe that this is preferable to a period of continuous information discontinuity.

Prospective Adoption of Standards Does Not Serve Investor Needs – Another element of the transition method which concerns us is the SEC’s recommendation that standards subject to the FASB review be incorporated on a prospective basis and that this prospective method of incorporation may vary depending upon the standard. **We strongly disagree with the prospective adoption of standards as proposed by the SEC. Our investor members have repeatedly and unequivocally told us that comparative retrospective information is essential to their analysis and investment decision-making process.**

Approach Raises Significant Comparability Concerns for Investors – The staged transition effectuated on a prospective basis (possibly using different prospective adoption approaches) will create an extended period where there is a lack of comparability within and between entities – some of which may last for years beyond the transition date.⁴⁵ Aside from these transition factors, which will diminish comparability, there are numerous other aspects of the proposed approach that may diminish comparability. These include: the endorsement activities of the SEC and FASB; the SEC and FASB standard-setting related activities such as issuing implementation and interpretative guidance; establishing additional disclosure requirements and determining acceptable U.S. alternatives amongst IFRS optionalities; any possible early adoption of IFRS although not addressed directly in the Staff Paper; and the possibility that foreign filers will use a different variant of IFRS. As comparability is a critical element of financial statement analysis and investment decision-making, we urge the SEC to consider comparability as an essential element of their decision-making process in selecting a transition and incorporation method.

Doubtful That Objective of U.S. GAAP and IFRS Being Equivalent Will Be Achieved – The Staff Paper indicates that the objective of this proposed approach is to: a) establish a single-set of high-quality, globally accepted accounting standards, and b) place U.S. issuers in a position to assert that they comply with both U.S. GAAP and IFRS as issued by the IASB. We are doubtful that the approach outlined in the Staff Paper is likely to lead to U.S. GAAP and IFRS as issued by the IASB being equivalent in the short run. Past experience has shown that regional differences have arisen in the case of most countries incorporating IFRS. If this endorsement approach is implemented, we believe that the result will likely be a U.S. version of IFRS. We are concerned that excessive emphasis on the objective of equivalence of IFRS and U.S. GAAP may create confusion for investors and possibly convey the impression that the standard-by-standard review, endorsement ability and

⁴ Accounting standards that change the valuation of assets or liabilities will affect reported income for years into the future until the assets or liabilities are extinguished.



interpretation and implementation activities of the FASB and SEC may be equivalent to a “rubber stamp.” We believe it is important to clarify how this objective and the practical realities of the proposed approach can be reconciled.

Term U.S. GAAP Should Be Retained – The Staff Paper states that the term U.S. GAAP would be retained. We agree that retention of the term would make the transition easier as any references in U.S. laws, regulatory requirements, and contractual documents would not require modification. While we understand there is some appeal to using the term IFRS, we do not believe any country should utilize the term IFRS unless it has followed all IFRS standards as issued by the IASB. As we are doubtful there will be exact uniformity between U.S. GAAP and IFRS, we believe retention of the term U.S. GAAP is probably the most practical alternative.

Enforcement Mechanism Not Addressed in Staff Paper – As we have said in our previous commentary on IFRS adoption/incorporation, U.S. investors seek confidence that a strong enforcement mechanism for IFRS standards exists before they are implemented. The Staff Paper does not address enforcement; however, we want to emphasize the importance of enforcement as an element of the transition to IFRS as it will impact comparability of IFRS standards within the U.S. and across jurisdictions, and consistent enforcement will increase investor confidence regarding the quality of both IFRSs and their application. We urge the SEC to articulate what enforcement will be like under the condorsement approach. We believe that the SEC should maintain the same level of enforcement as it now applies to U.S. GAAP statements of U.S. registrants.



Closing Remarks

CFA Institute believes that quality is the principal objective of financial reporting reform. Therefore, we urge the SEC to complete execution of the Work Plan before making a determination as to if, how and when IFRS might be incorporated into the U.S. financial reporting regime. At that time, we would encourage the SEC to decide on an incorporation approach which results in the least information discontinuity and provides the greatest comparability with the highest degree of transparency as to the differences which will inevitably exist.

IFRS with regional differences may not result in uniformity but it is a step forward towards the objective of greater comparability. The other alternatives – such as U.S. GAAP being retained without greater comparability between accounting standards applied around the world, or separate standards existing for major economies such as the U.S., Japan, and China with the IASB setting standards for Europe and other key countries around the world – are much less desirable. While IFRS with regional differences may be an interim solution, the pursuit of a single-set of high-quality global financial reporting standards as the ultimate objective should not be set-aside. Investors need the greater comparability that a single-set of high-quality global financial reporting standards can provide. However, our members have told us that when the objective of incorporation or convergence conflicts with the quality of an accounting standard, high-quality must take precedence.

We look forward to further communications from the SEC on developments in the execution of the Work Plan. We ask the SEC to make this decision in a thorough and thoughtful manner to ensure that we work towards the ultimate objective of having U.S. registrants provide financial statements that allow investors to make sound capital allocation decisions. The SEC decision should not be driven by artificial deadlines, but based upon the completion of a thoughtful and thorough analysis of the issues.

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If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht
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CFA Institute

/s/ Gerald I. White
Gerald I. White, CFA
Chair
Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council