CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

July 28, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: File No. 4600 Commission Statement in Support of Convergence and Global Accounting Standards

Dear Ms. Murphy:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ appreciates the opportunity to provide feedback to the Securities and Exchange Commission's (the "SEC" or "Commission") File No. 4600, *Commission Statement in Support of Convergence and Global Accounting Standards;* in particular, the May 26, 2011 SEC Staff Paper *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, Exploring a Possible Method of Incorporation* (the "Staff Paper"). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

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OVERALL COMMENT

As expressed in our comment letter dated November 13, 2007, to the Commission's Concept Release on *Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards* (Concept Release Response), as well as our comment letter dated April 9, 2009, to the Commission's Proposed *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (Roadmap Response), the CAQ believes that investors would benefit if issuers around the world prepared financial statements using a single set of high-quality, globally accepted accounting standards that are consistently applied and enforced. We believe the Staff Paper presents a balanced approach that moves the United States toward this goal, via convergence, with a significant commitment to not create further differences.

Incorporation of IFRS[1] into the U.S. financial reporting system is an important matter for investors, issuers and auditors in the U.S. and global communities. We look forward to an announcement of the Commission's intended direction and timing on this topic.

SPECIFIC COMMENTS

We recommend that the Commission consider the following observations related to the approach set forth in the Staff Paper. We have organized these observations around the following topical areas:

- Dual Compliance
- Role and Authority of the FASB
- Transition

DUAL COMPLIANCE

The Staff Paper describes a model that could enable U.S. issuers to assert that they comply with both U.S. GAAP and IFRS on an ongoing basis once the transition period is completed. We agree with this goal, but we note several practical challenges which could limit the effectiveness of the proposed approach in achieving this objective.

First, the FASB may find it difficult to endorse certain IFRS standards without modification as there are a number of areas in which IFRS and U.S. GAAP differ significantly. This concern is underscored by recent decisions reached by the FASB and IASB which differ in several important areas. In the process of amending U.S. GAAP to incorporate IFRS, the FASB may determine that a change to an existing IFRS standard is necessary for use in the United States. Although the FASB could narrow certain options available to companies within specific IFRS standards and still achieve

[1] Unless otherwise noted, references to IFRS relate to IFRS as issued by the International Accounting Standards Board.

dual compliance, wholesale carve-outs and departures from IFRS standards would create a "local flavor" of IFRS for the U.S. markets and would hinder the goal of issuers being able to assert dual compliance. The Staff Paper envisages that the FASB might make changes to IFRS in "rare" circumstances; but such changes might prevent U.S. companies from asserting dual compliance with IFRS and U.S. GAAP (see further discussion below under "Role and Authority of the FASB").

Another challenge to dual compliance is that the prospective application of the endorsed standards as suggested in the Staff Paper is incompatible with IFRS 1, *First-time Adoption of IFRS.* IFRS 1 generally requires retrospective application with certain specific exceptions and exemptions. If U.S. issuers are to unequivocally state compliance with IFRS, additional amendments to IFRS 1 would need to be sought to permit a prospective application in certain areas, particularly for transactions with long-term impacts on the financial statements (e.g., property, plant and equipment).

ROLE AND AUTHORITY OF THE FASB

Under the approach presented in the Staff Paper, the FASB would incorporate newly issued or amended IFRS standards following an endorsement protocol. We observe that this approach is similar to that used in other jurisdictions and would align the role of the FASB with that of other national standard-setters. While the FASB would be an active participant in the global standard-setting process, it would not be responsible for creating new U.S. standards applicable to public companies.

Although the FASB would not set new accounting standards under the proposed approach, it is important to note that the FASB would have the authority to modify or supplement IFRS if required to protect U. S. investors (similar to the SEC's existing ability to override the FASB's accounting standards). While the Staff Paper notes that FASB changes to IFRS standards are expected to be rare and generally avoidable, the SEC will need to provide clear direction so that the FASB can build an appropriate framework, including due process, for incorporating IFRS into U.S. GAAP, including the circumstances upon which departures from IFRS might be necessary. Setting the appropriate threshold for permitting changes will be required to help achieve the end-goal of a single set of high-quality, globally accepted accounting standards.

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 "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.

In addition, for the Staff's approach to be successful, there needs to be a shift from the convergence mindset of the last ten years to a new mindset of incorporation. The goal must shift from changing both U.S. GAAP and IFRS to achieve converged standards, to determining whether IFRS standards are of high quality and can be implemented in the United States and can thus be endorsed and incorporated.

TRANSITION

Under the approach in the Staff's Paper, the FASB would incorporate IFRS into the Codification during a transition period. Any transition period should be of sufficient length to give issuers enough lead time to implement the new standards, and flexible enough to allow issuers the ability to transition in an effective and cost efficient manner. We believe a transition period of five to seven years is reasonable.

We also believe it will be important for the FASB to develop a transition plan that is comprehensive, well-planned and well-communicated to ensure investors understand the state of the standards in use in any one period. Constantly changing standards could result in "standards fatigue" for issuers and could create unnecessary confusion for investors.

Lastly, we suggest the FASB carefully consider the effective date and transition requirements, similar to the manner in which the FASB is considering transition and effective date issues for the Memorandum of Understanding (MOU) projects. The FASB and SEC may find that financial statement preparers and users would prefer to adopt changes to the legacy standards on a single date (or periodically in groups) to minimize disruption.

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We appreciate the opportunity to comment on the Staff Paper and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

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