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Oct. 18, 2010

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via Electronic Mail: rule-comments@sec.gov

Re: File No. 4-607: ***Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers***

Dear Ms. Murphy:

Standard & Poor's Ratings Services appreciates the opportunity to provide the Securities and Exchange Commission (the Commission) our comments on the Commission's *Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers* (the Notice).

The views expressed in this letter represent those of Standard & Poor's Ratings Services and do not address, nor do we intend them to address, the views of any other subsidiary or division of Standard & Poor's Financial Services, LLC or of its parent, The McGraw-Hill Companies, Inc. We intend our comments to address the analytical needs and expectations of our credit analysts.

In the appendix to this letter, we address some of the specific requests for comment in the Notice. Our responses deal with issues and topics that we feel are relevant in our role as credit analysts and a credit rating agency. Our comments in this letter restate our support for global accounting standards and address issues that we believe are important for your decision processes.

Support For A Single Set Of Global Financial Reporting Standards

Standard & Poor's Ratings Services consistently has supported a single set of global financial reporting standards.[1] We believe that a single body of high-quality standards,

[1] See Standard & Poor's Ratings Services Comment Letter on the Commission's Proposed Rule, *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (File No. S7-27-08), April 20, 2009.

established by a well governed, adequately funded global accounting standard-setter, uniformly applied by companies, and consistently enforced by auditors and regulators, would benefit our analyses of global companies.

We believe the capital markets would benefit from the development of a global accounting system that would be able to accommodate the increasing complexity of business and finance. In our view, the current situation, with two primary systems—International Financial Report Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP)--is not optimal. Both systems do not always tie to their conceptual frameworks, and accordingly, are subject to frequent revisions. The trends surrounding convergence and continuing improvement to global financial reporting standards clearly are encouraging, but there is much work to do, particularly regarding the creation of a conceptual framework that will serve as the foundation for a comprehensive reporting system. In this regard, we believe, conversion to a single set of standards may introduce greater resources to the creation of a comprehensive framework and a system that could ultimately be more complete, to better accommodate changing circumstances and varying economic environments.

We support the Commission's efforts to promote convergence of U.S. GAAP and IFRS. More than ever, investment opportunities are global, so the need for consistent accounting and reporting principles is increasingly important in our view. As a global accounting and reporting language, IFRS would facilitate financial-statement comparability to help us better compare financial results of rated issuers worldwide. We believe international convergence and ultimately, conversion, would benefit analysts, investors, and creditors for years to come by providing a consistent framework for financial reporting and disclosure, allowing better information flow, peer comparison, and global capital flows.

Lack Of Certainty And Other Hurdles To IFRS Convergence Should Be Avoided

We believe the current lack of certainty regarding IFRS conversion is a key obstacle in preparing for IFRS in the U.S., whether by analysts, investors, or other users of financial statements. In the absence of that certainty, capital market participants may be reluctant to commit to the extensive transformation in information systems and human and financial resources necessary to implement IFRS. Indeed, the lack of certainty in IFRS conversion in the U.S. has, in our view, slowed preparation efforts by many users.

We recommend that the Commission adopt IFRS, while providing sufficient time for necessary improvements, allowing appropriate transitional needs to be met, including adoption of disclosure principles. We believe that, if the Commission establishes a definite date for IFRS adoption and a definitive implementation schedule, it would help create the appropriate setting required for users (and others) to prepare for transition.

If the Commission establishes firm conversion dates, the transition timing could be concurrent--as it was in Europe--or near concurrent for all registered companies. However, we also understand why a phased-in approach may be needed and perhaps more practical. One option could be for large, accelerated filers to switch first with adoption required one or two years later for accelerated and non-accelerated filers. If a staged or sequenced adoption is mandated, we suggest the Commission allow early adoption by all issuers. We believe this would increase the learning experiences for users, preparers, and regulators, thereby meeting the early adoption objectives. Notwithstanding our support for a staged approach, we suggest limiting the time during which both U.S. GAAP and IFRS financial statements are used. Drawing out the transition over a long period would complicate the analysis of domestic issuers and make it more difficult to retain comparability.

Nevertheless, we recognize that the move to IFRS goes far beyond the implementation of new (or converged) accounting standards. For example, it will necessitate additional training, involving not only the technical aspects but also developing users' ability to analyze, and preparers to apply, increased judgment. Preparers will need the competencies to apply a company's specific business dynamics in the context of a uniform set of principles to communicate to users who will need to understand the financial position, earnings, cash flows, valuations, and risks of the company.

European IFRS Conversion Experience

Our credit analysts in many parts of the world currently use financial statements prepared in accordance with IFRS. Beginning Jan. 1, 2005, the EU required all listed European companies to adopt IFRS. This transition went smoothly for our analysts, and none of the accounting changes resulting from the IFRS transition alone caused any changes in our ratings. This is in part because of our long-standing practice of adjusting reported financial information to reflect underlying realities and enhance analytical comparison. Additionally, the information disclosed under IFRS did not significantly alter our assessment of business and financial risks; any changes in risk stemming from IFRS have not been significant to our overall assessment of credit risk.

The European transition certainly contributed to increased consistency compared to standards previously in use in each country. Transparency also improved, particularly for items that had been off-balance-sheet and at times not disclosed. However, the need for industry-specific guidance has begun to surface in the application of industry-specific accounting policies and disclosure practices. Accounting for retirement benefits, financial instruments, derivatives, and consolidations remains in the spotlight. Auditors and regulators are addressing issues of compliance in a more coordinated manner, but there is more work to be done. Overall, from an analytical perspective, we view the European conversion to IFRS favorably.

Enhanced Disclosures and A Disclosure Framework

We believe it is important that a robust disclosure framework accompany the conversion to IFRS in the U.S. We reiterate our views on the need to develop a comprehensive, principle-based disclosure framework as part of the conversion process[2]. The disclosure framework should require that companies provide comprehensive information about accounting polices and their applications, significant assumptions, composition of account balances, and forward-looking analysis. Beyond its obvious long-term benefits in

[2] Ibid, Note 1.

meaningfully enhancing the utility of financial statements, we believe that the adoption of a disclosure framework prior to conversion will greatly facilitate users' understanding of the effects of the changes. Moreover, disclosure requirements under IFRS should ensure that users get the same amount and quality of information as under U.S. GAAP. If the conversion will not achieve this goal from the onset, the outcome will be less than optimal in our view. (Please see our discussion of disclosures in the appendix for additional information.)

* * *

We thank you for the opportunity to provide our comments, and would be pleased to discuss our views with members of the Commission's staff. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

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Appendix

The observations we provide below arise from our activities as users of information provided in the financial statements of issuers we rate. Accordingly, the perspectives are those we view as important in the context of our credit analysis and we do not address the vantage point of investors who are users of our credit ratings and analyses.

To what extent and in what ways is the set of accounting standards (such as U.S. GAAP or IFRS) used by a company in its financial reporting significant to an investor's decision to invest in that company?

To what extent and in what ways would an investor's investment decision-making processes change if a U.S. issuer's financial statements were prepared using IFRS? Would investors need additional or different information to perform their analysis and, if so, what?

In our rating process, we traditionally use U.S. GAAP, IFRS, or home-country (local) GAAP as a starting point for our analysis. The set of accounting rules used is not significant to our analysis. To facilitate greater consistency among global peers, we may adjust reported financial statements based on how we view the economic reality of the company and our understanding of the accounting differences, regardless of the particular accounting rules followed.[3] For example, all listed European companies were required to implement IFRS for years beginning Jan. 1, 2005, and to restate 2004. IFRS allowed us to streamline our analytical comparisons and apply our analytical adjustments more widely.

Certainly, conversion to IFRS would result in financial restatements of certain past reported data presented for comparable purposes to reflect new and revised information to comply with IFRS. As a result, the financial position, earnings, and key metrics that analysts rely upon would likely change. New information provided may alter our assessment of existing business- or financial-risk profiles. A significant change in a company's behavior or real-life effects such as covenant triggering, regulatory compliance measures, and adverse capital-market reactions may also influence our ratings[4]. However, we do not expect these risks to be prevalent given our experience with the European transition and the robustness of disclosures within the existing U.S. GAAP and SEC filings requirements.

[3] See for example, Standard & Poor's Ratings Services "Criteria | Corporates | General: Criteria Methodology: Calculating Adjusted Debt And Interest For Corporate Issuers", published June 2, 2008 available at http://www.standardandpoors.com/prot/ratings/articles/en/us/?assetID=1245199733275 and "Criteria | Financial Institutions | Banks: Financial Institutions Group Provides More Transparency Into Adjustments Made To Bank Data", published April 26, 2007 available at http://www.standardandpoors.com/prot/ratings/articles/en/us/?assetID=1245199724328.

[4] Ibid, note 3.

To what extent are investors aware of the potential impact of incorporation of IFRS into the financial reporting system for U.S. issuers that they invest in or follow, compared with current U.S. GAAP? How significant of a change would the use of IFRS as compared to current U.S. GAAP be for investors?

We are aware of the many current differences between U.S. GAAP and IFRS. We also recognize that there will be significant changes to both accounting systems as the convergence process continues. In our experience with the European conversion to IFRS, none of the accounting changes from the IFRS transition alone caused any changes in our ratings. However, new information may alter our assessment of existing business- or financial-risk profiles. In addition, a significant change in a company's behavior or the effects of adopting IFRS, such as covenant triggering, regulatory compliance measures, and adverse capital-market reactions, may also influence a company's ratings.

A change in accounting framework will affect certain industries that apply industry-specific Financial Accounting Standards Board (FASB) standards or American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guides. For example, companies rely on FASB standards for the oil and gas, rate-regulated utility, and insurance industries or the AICPA audit guides for airlines, investment companies, and federal government contractors, among others. Accounting standards for these industries are not yet part of the IFRS framework and it is unclear how these industries may apply IFRS in the absence of industry guidance. Indeed, a transition to IFRS likely will mean that general principles that apply to all industries may supersede some industry-specific guidance. It remains unclear if these industry-specific requirements will be lost and how added disclosures (such as requirements to disaggregate line items in the financials and explanations of financial trends) that reside outside U.S. GAAP but are Commission requirements will supplement IFRS reporting. To reiterate, we believe that the disclosure requirements that would accompany the conversion to IFRS and going forward should ensure that users would get the same extent and quality of information as under U.S. GAAP.

To what extent and in what ways would any of the current differences between U.S. GAAP and IFRS affect an investor's use of information reported in the financial statements? How would completion of the convergence projects being jointly undertaken by the FASB and the IASB affect an investor's use of those financial statements?

To better compare investment prospects globally, we have a strong preference for a single set of comprehensive accounting standards coupled with comprehensive disclosures, to enable comparisons among global peers and facilitate better information flow.

Convergence or conversion of accounting rules may require changes in our models and adjustments and to metrics used in our analysis. We believe completion of the convergence projects would be beneficial because it will provide a more consistent starting point and will ease conversion to IFRS. However, we do not view this as a prerequisite to transition.

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To what extent and in what ways do investors think incorporation of IFRS would affect comparability among different issuers' financial statements? To what extent do reporting format and disclosures affect any lack of comparability?

In our view, a single set of global financial reporting standards would increase consistency and comparability of accounting and financial reporting internationally. We do note, however, that there is potential for some divergence on transition because of "newness" and application questions, which, we believe, will be minimized over time. Further, global accounting firms already have gained experience in applying and reporting using IFRS in Europe and other countries. Although there is a potential for lack of comparability, we believe that it can be mitigated, in particular if the transition is accompanied by robust disclosures through which companies "tell their conversion story." This would help our analysts to understand better the transition and would promote consistency both at inception and over time.

We also believe it would be beneficial for the FASB and IASB jointly to develop a comprehensive, principle-based disclosure framework as part of the convergence. Undoubtedly, optional accounting methods and differing judgments and circumstances will continue to exist, whether an entity uses U.S. GAAP or IFRS. In addition to the general benefits of such a disclosure framework, we believe a principles-based accounting framework requires greater emphasis on disclosures that show how an enterprise applies principles to a particular transaction or economic activity in its financial reports.

We believe that introducing a disclosure framework together with transition disclosures could serve to mitigate many of the risks associated with the potential for users' confusion and uncertainty during transition, in addition to its evident long-term benefits. Given the complex nature of the business environment and a principles-based accounting framework, the importance of disclosures is ever more evident.

The disclosure framework should consistently require companies to provide comprehensive disclosures of:

- Accounting policy selections and applications.
- Related balances in financial statements and account composition.
- Significant assumptions on which material account balances are based and sensitivity analyses of factors that may cause these assumptions and balances to change.
- The likelihood or probability of such changes occurring.
- Information enabling forward-looking analysis, including risks and uncertainties.

Appendix

To what extent and in what ways would an investor's investment decision-making processes change if U.S. issuers were given a choice to elect to prepare their financial statements using either U.S. GAAP or IFRS? Would an investor have greater or lesser confidence in a company's financial reporting if a U.S. issuer were to elect to prepare its financial statements in accordance with IFRS rather than U.S. GAAP?

In our view, as outlined in our letter, we believe U.S. issuers ultimately should not have the choice of accounting standards to apply. We support a single set of global financial reporting standards. We believe a single body of high-quality standards will better enable our analyses of global peer companies, enhance the accounting standard-setting process, and underpin the efficient operation of the global capital markets.

Ideally, the transition to IFRS would be concurrent--as it was in Europe--or near concurrent for all registered companies. However, we understand why a phased-in approach to adoption of IFRS may be needed and recommend that, if so, the Commission limit the time during which it accepts both U.S. GAAP and IFRS financial statements.

We believe that analysts and users will develop confidence in financial statements prepared using IFRS in the following ways:

- The quality of the standards themselves.
- The level of disclosures, including rationales for accounting elections made.
- The quality of auditing and enforcement systems that support the accounting. (For international accounting standards to be comparable across jurisdictions and companies, we believe the enforcement role of auditors and regulators is important in ensuring the appropriateness and integrity of financial information.)

These necessary underpinnings for confidence in IFRS financial statements should be coupled with comprehensive explanations of transition differences and accounting elections during the transition period, such that users have adequate information.

To what extent and in what ways do investors participate in the standard-setting process when the FASB and IASB set standards? Do they monitor standard-setting deliberations? Do they prepare response letters to requests for comment? Do they participate in the standard setters' working groups and roundtables?

In our experience, investors' participation in accounting standard setting has increased over the past few years, although there is clearly room for further engagement and representation. Both the IASB and the FASB have proactively engaged us in discussion on various projects and activities.

We actively participate in numerous standard setting activities at both the FASB and the IASB. Depending on the project, our involvement may include monitoring developments and responding to comment letter requests on proposed standards as well as participation in round table discussions and frequent informal communications with the IASB and the FASB on a variety of accounting topics and projects. We participate on various standard-setter committees and working groups, such as the FASB Investors Technical Advisory Committee, Financial Accounting Standards Advisory Council, the Investors Technical Advisory Committee, IFRS Advisory Council, and IASB Analyst Representative Group. We are also member of IASB and FASB working groups on disclosure framework, lease accounting, financial statement presentation, liabilities and equity, and insurance. We also have a representative on the AICPA's Financial Reporting Executive Committee.