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October 18, 2010

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

RE: File Reference No. 4-607 and No. 4-608

Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers

Dear Ms. Murphy:

We appreciate the opportunity to respond to the U.S. Securities and Exchange Commission's (Commission or SEC) Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers. Consistent with our April 16, 2009 comment letter regarding the U.S. Securities and Exchange Commission's proposed roadmap and rule proposal: *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with the International Financial Reporting Standards by U.S. Issuers* (Proposed Roadmap), we continue to support, as the ultimate goal, the use of a single set of high-quality, globally-accepted accounting standards.

We commend the SEC for its outreach to financial reporting stakeholders to help it better understand the implications to investors and issuers of the potential incorporation of International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers as part of the Commission's work plan to evaluate the impact that IFRS will have on the U.S. financial reporting system and we fully support the objectives of the Commission's work plan¹. It is important for the SEC to communicate its plans for the potential use of IFRS by U.S. issuers, including a firm date for transition, as early as possible to remove the existing uncertainty among financial reporting constituencies. Additionally, we believe it is equally important for the FASB and IASB to successfully complete the convergence of the high priority projects identified in their Memorandum of Understanding (MoU)². With the Boards' June announcement that the timeline for

¹ SEC Release No. 33-9109, Commission Statement in Support of Convergence and Global Accounting Standards.

² IASB and FASB, Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards, 24 June 2010.



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completion of some of the MoU projects has been pushed back, we believe the Commission should evaluate whether and if so how further changes in the timeline for completion of the MoU projects may influence the SEC's consideration of the potential use of IFRS by U.S. issuers and a potential date of adoption of IFRS in the U.S. As noted in the work plan, the Commission's evaluation of whether to incorporate IFRS into the financial reporting system for U.S. issuers will be predicated on an analysis of the sufficiency of the development and application of IFRS and the independence, including stability and adequacy of funding, and investor focus of the standard setter. Due to the change in timeline for completion of some of the projects under the MoU, we believe that ongoing progress reports to be issued by the SEC staff will be critical in communicating the status of the SEC's progress on its IFRS work plan. Additionally, the SEC should be informed by the experiences of other countries that have adopted and that are in the process of adopting IFRS to gain a deeper understanding of the consequences of IFRS on preparers, board members, investors, and auditors in those jurisdictions. The jurisdictions converting from national GAAPs that are closer to US GAAP may provide stronger information for the Commission to consider.

Below are our observations in response to certain elements of the requests for comment as it relates to the investors' understanding of IFRS, potential implications on contractual arrangements and corporate governance, and implications on certain aspects of the regulatory environment for the Commission's consideration.

Investors' Understanding of IFRS³

We believe that investors will need to engage in training on IFRS that focuses on the consequences of IFRS to their financial analysis. The SEC will want to continue its outreach to investors as to the level of education and training they believe will be needed if IFRS is incorporated into the financial reporting system for U.S. issuers. That being said, we note that investors must engage in ongoing training today because U.S. GAAP continuously evolves and changes over time and investors need to have training processes in place so that they understand the implications of those changes on their financial analysis. In particular, during the current period of significant standard-setting by both the FASB and the IASB, investors will be faced with the prospect of understanding the consequences of many fundamental changes to U.S. GAAP independent of an IFRS decision by the Commission. To the extent the FASB and IASB are successful in achieving converged standards in a number of these areas, the incremental training needs of investors could be substantially reduced. We also are aware that training on IFRS is currently available to investors from a number of sources if they wish to gain an

³ SEC Release No. 33-9133, Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS Into the Financial Reporting System for U.S. Issuers.



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understanding of the differences between U.S. GAAP and IFRS that exist today. As such, we do not believe this matter should cause a delay in the potential incorporation of IFRS into the financial reporting system for U.S. issuers. Therefore, we continue to urge the Boards to work towards convergence of the high priority projects identified in their MoU and we encourage the Commission to continue its support for successful completion of the MoU projects.

Impact on Contractual Arrangements⁴

Contracts such as debt agreements, lease agreements, and compensation arrangements often either explicitly or implicitly require the use of, or are based on, U.S. GAAP. The adoption of IFRS in the U.S. could affect compliance with contractual arrangements as well as how issuers demonstrate compliance with contractual arrangements. However, we believe if IFRS is adopted in the U.S., the incremental impact of adopting IFRS on contractual arrangements may be lessened if the Boards successfully complete their MoU convergence plans because issuers would be required to consider the impact of changes in U.S. GAAP resulting from those projects even without an adoption of IFRS.

As is the case with investors, issuers likewise already need to have processes in place to manage the implications of changes over time in U.S. GAAP on their contractual arrangements. For example, to the extent that contractual arrangements with provisions or requirements (i.e., debt covenants, stock compensation arrangements) are based on current U.S. GAAP, issuers need to have processes in place currently to understand the implications of changes in U.S. GAAP on their contractual arrangements so that they can determine whether modifications to the contract might be needed. Conversely, some U.S. issuers may have contractual arrangements with provisions or requirements based on U.S. GAAP in place when the contractual arrangement was initially executed (i.e., “frozen” or “static” GAAP). For such arrangements, issuers would need to have processes in place currently to allow them to report compliance with the contractual arrangements on the basis of U.S. GAAP as it existed when the arrangement was entered into.

While we understand that an adoption of IFRS could have more significant impacts on some issuers than the ongoing changes in U.S. GAAP, we believe the process for managing the implications of those changes on contractual arrangements would be much the same. However, we acknowledge that preparers of financial statements will need to inventory and evaluate contractual arrangements to determine whether the adoption of IFRS in the U.S. will have a significant impact and whether contracts will need to be amended or renegotiated. We also acknowledge that doing so may result in additional

⁴ SEC Release No. 33-9134, Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS Into the Financial Reporting System for U.S. Issuers.



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costs to issuers. This effort could take a considerable amount of time and resources and therefore, a sufficient transition or phase-in period is needed to allow U.S. issuers time to understand the impact of adopting IFRS on their contractual arrangements and to take necessary actions as part of their transition to IFRS. We believe a sufficient transition or phase-in period also could have the benefit of allowing issuers to make appropriate changes to contractual arrangements as they expire and new agreements are executed in the normal course which could lessen the impact of an adoption of IFRS.

Impact on Corporate Governance

Incorporating IFRS into the financial reporting system for U.S. issuers may affect compliance with corporate governance requirements, specifically the requirement relating to the need for a financial expert to serve on audit committees. Many board members who currently meet the financial expertise qualifications relative to U.S. GAAP may not have the same level of understanding or experience with IFRS. However, as is the case for investors, given the ongoing changes that are made to U.S. GAAP, financial experts already have a responsibility to obtain training and education on changes to U.S. GAAP to maintain their financial expert qualification. With the significant changes likely to occur to U.S. GAAP in the near term, this could be a substantial undertaking for some audit committee members even without an adoption of IFRS.

Nonetheless, we acknowledge that adoption of IFRS could have a more significant impact on financial experts at the time of initial adoption of IFRS as compared to changes currently being made to U.S. GAAP. We believe the successful completion of key MoU projects resulting in increased convergence between U.S. GAAP and IFRS may lessen this impact on financial experts upon adoption of IFRS. Also, the challenge of training and educating financial experts may vary depending on the size and sophistication of the issuer. We encourage the SEC to seek input from audit committee members of U.S. issuers of all sizes to understand if challenges are the same for financial experts regardless of size or industry of the issuer. Again, a sufficient transition or phase-in period will be needed to allow U.S. issuers time to address the impact of adopting IFRS on corporate governance.

Impact on Regulatory Environment

We are currently not aware of any issues regarding an issuer's ability to comply with quantitative securities exchange listing requirements upon adoption of IFRS in the U.S. However, we encourage the SEC to seek input from stock exchanges to determine whether adoption of IFRS in the U.S. would impact the current governing listing rules of the exchanges. In addition, prudential regulators will need to continue to consider whether their regulatory objectives are achieved based on financial statement information



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developed with an investor focus and whether the regulators should require that adjustments to financial statement information be made so that they receive information consistent with their regulatory objectives.

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In summary, while we agree that an understanding of the matters included in the requests for comment, including investors' ability to further their understanding of IFRS, impact on contractual arrangements, corporate governance, regulatory environment, and statutory distribution restrictions are important, we do not believe those issues should prevent the adoption of IFRS in the U.S. assuming a sufficient transition or phase-in period is established by the SEC. Consistent with the approach taken in the SEC's workplan, we believe the more critical issues for the Commission to evaluate will be the sufficient development and application of IFRS, the evaluation of the independent standard setting process for IFRS including funding, and the successful completion of the high priority projects in the MoU. We, therefore, encourage the SEC also to seek input from constituents on these critical matters as it continues its evaluation process under the work plan.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Glen Davison at (212) 909-5839, or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP