ima®

The Association for
Accountants and
Financial Professionals
in Business

October 18, 2010

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

File Reference: No. 4-608 and 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:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to provide the U.S. Securities and Exchange Commission ("SEC") our views on the two recent *Notices of Solicitation of Public Comment on Consideration of Incorporating IFRS Into the Financial Reporting System for U.S. Issuers.* FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We continue to support the goal of global convergence whether that entails moving to a widely used single set of high quality globally accepted accounting standards that are uniformly applied and enforced in major markets around the world or ongoing efforts to ensure convergence and improvement of U.S. accounting standards with those of promulgated by the IASB. Selecting an appropriate path for how the U.S. should continue to participate in the global convergence process is obviously not an easy task and we support the approach currently being taken by the SEC to fully study this matter before determining how to best move forward. In that regard we believe the two notices for solicitation of public comment touch on several topics that are important to consider in determining how to incorporate International Financial Reporting Standards ("IFRS") into the financial reporting system for U.S. Issuers.

10 Paragon Drive
Suite 1
Montvale, NJ 07645
www.imanet.org

Compliance with Contractual Arrangements

We appreciate the SEC's specific focus on how the incorporation of IFRS into the financial reporting system for U.S. Issuers may impact contractual arrangements. This is a very important area that will be a key focus of conversion projects should the SEC decide to move ahead with mandating use of IFRS for U.S. issuers. We would like to make the following points with regard to the specific questions posed in the notice of solicitation of public comment about the impact of a conversion to IFRS on contractual arrangements.

- The adoption of IFRS into the financial reporting system in the U.S. could have a very significant impact on the various types of contractual arrangements noted by the Commission; including financing agreements, trust indentures, merger agreements, executive employment agreements, stock incentive plans, leases, franchise agreements, royalty agreements, and preferred stock designations. This impact is hard to generalize and will likely be idiosyncratic to individual agreements based on the particular terms and conditions of those agreements. Accordingly, each issuer, as part of a conversion project, will likely have to perform a detailed contract by contract analysis to determine the full extent of the impact and to develop appropriate remedial action plans.

- The list of contract types highlighted in the notice of solicitation of public comment was reasonably comprehensive. Issuers are, however, party to many other types of contractual arrangements and, as noted above, it will be necessary to carefully review all contractual arrangements as part of an IFRS conversion project to identify any potential impacts.

- Similar issues with contractual arrangements may arise as a result of changes in financial reporting standards under U.S. GAAP. However, that impact is mitigated by the fact that many contractual arrangements contemplate changes in U.S. GAAP and include specific provisions to address how such changes will be handled.

- The maintenance of multiple accounting systems (i.e., keeping one set of books following U.S. GAAP for purposes of evaluating compliance with a contractual arrangement and a separate set of books following IFRS for financial reporting purposes) is not a practical long-term solution to remediate the impact the incorporation of IFRS may have on contractual arrangements. We expect most issuers will attempt to modify contractual arrangements. It should be noted that there is often a cost that accompanies such modifications.

- It is uncertain if a statement from the SEC, the Financial Accounting Standards Board ("FASB") or another regulatory/legislative body that IFRS is a generally accepted set of accounting standards in the United States would eliminate or substantially reduce the need to modify contractual arrangements. We anticipate that such a statement would not mitigate the need to modify contracts in scenarios where the resultant accounting treatment under IFRS would not be preferable/acceptable to the registrant or its counterparty, as it perhaps had been under U.S. GAAP. We encourage the SEC to research this issue further with the assistance of legal counsel.

Corporate Governance and Stock Exchange Listing Requirements

In the notice of solicitation of public comment the SEC poses a number of questions about how the incorporation of IFRS may impact corporate governance and stock exchange listing requirements. With respect to corporate governance requirements, specifically the requirements related to audit committee member financial expertise, we do believe it may be challenging to appropriately educate board members and/or recruit new board members with IFRS expertise. However, we expect issuers' boards of directors will play an active role in overseeing IFRS conversion projects and during a transition phase of sufficient length should, in most cases, be able to gain an appropriate level of understanding in IFRS to continue to meet applicable requirements.

With respect to quantitative securities exchange listing standards we do not have significant concerns related to the incorporation of IFRS into the financial reporting system for U.S. issuers. We believe an appropriate transition period should allow any issues related to such requirements to be appropriately evaluated and addressed by issuers and the relevant exchanges.

It should be noted that the above views are informed by members of the FRC who are preparers of financial statements for large public companies. We have not surveyed the boarder membership of the IMA, many of whom are employed by smaller public companies, to determine if the expected implications for smaller public companies differ.

Statutory Distribution Restrictions and Other Legal Standards Tied to Financial Reporting Standards

The notice of solicitation of public comment also poses questions related to ways incorporating IFRS into the financial reporting system for U.S. issuers is likely to affect the application of limits in state statutes on the ability of issuers to make distributions to holders of equity securities, either through dividends or similar distributions in respect of those securities, or to repurchase such securities. We do not believe issues related to such requirements are a significant impediment to the incorporation of IFRS in the financial reporting system for U.S. issuers and any issues that do exist can be remediated during any appropriate transition period. It should, however, be noted that these views represent a collection of belief by FRC members without more extensive research.

Questions for Investors

Financial statements prepared by issuers are often a critical element of analysis for all types of investors and we are pleased the SEC has specifically focused on how the incorporation of IFRS in the financial reporting system for U.S. issuers may impact investors. We do not, however, believe issues related to investor preparedness will be a significant impediment to incorporation of IFRS in the financial reporting system for U.S. issuers. Many professional investors and other sophisticated financial statement users have already begun to become acclimated with IFRS given the ever increasing globalization of capital markets. And, U.S. investor familiarity and comfort with IFRS will only grow during the coming years as our neighbors in Canada, who are significant participants in U.S. capital markets, transition to IFRS in 2011.

We would like to make the following points with regards to the specific questions posed in the notice of solicitation of public comment on investor issues related to a conversion to IFRS for U.S. issuers. Please note that our views are from the perspective of professional investors and other sophisticated financial statements users and do not speak to the potential implications for retail investors.

- We do not believe the set of accounting standards used by a company in its financial reporting (U.S. GAAP or IFRS) is a significant factor in an investor's decision to invest in a company.

- We also do not believe that it would make a significant difference to investors if there was a single set of standards or a converged set of standards. Investors will benefit most from continued improvements to the quality of the standards used by issuers and the elimination of differences that affect comparability (either through conversion to a single set of standards or ongoing convergence).

- Investors do have an awareness of the accounting standards used by the companies they invest in and will often adjust financial statements to better reflect the economics of transactions underlying the financial statements and to improve comparability. Differences between IFRS and U.S. GAAP may underlie some of the adjustments made, but are likely not the most important reason for adjustment.

- Investors' use of financial statements is often focused on the prediction of future cash flows. Cash flows by their nature are less likely to be influenced by the set of accounting standards a company uses to prepare its financial statements.

- Investors are more likely to penalize a company (through a higher cost of capital) for low quality earnings and opaque reporting. The set of accounting standards followed by a company may have an impact on these areas, but are not a determinative factor.

- Completion of the convergence projects that are currently part of the memorandum of understanding (MOU) should significantly improve investors' ability to compare IFRS and U.S. GAAP reporting companies. Greater convergence of the two sets of standards would significantly reduce the comparability issues that would result from a voluntary conversion to IFRS by U.S. issuers. However, a partial adoption of IFRS into the U.S. financial reporting system (i.e., providing an option to U.S. issuers) is generally not viewed by investors to be an ideal option.

- Most investors do not devote a significant amount of time to monitoring and tracking accounting standard setter activities, but they often do have a general awareness of developments (particularly related to major projects like the financial instruments project). Investors are most likely to devote the greatest amount of time to understanding accounting changes when those changes are going into effect and beginning to have an impact on the numbers and disclosures are showing up in financial statements.

- By nature, most investors are more likely to be reactive rather than proactive to accounting changes. Efforts by standard setters to proactively educate investors about proposed changes and seek out their input in advance are very helpful.

<u>Timeline Considerations</u>

For many of the topics addressed in the notices of solicitation of public comment the SEC specifically asked if the issues noted could be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system. In a previous comment letter to the SEC's on the incorporation of IFRS into the financial reporting system for U.S. issuers[1], we stated that we believe registrants would need approximately five years from the establishment of a date certain to execute a conversion to IFRS. The many issues highlighted in the current notices of solicitation of public comment reinforce our belief that a transition period of no less than five years will be necessary to appropriately address all issues that may arise and provide for a smooth conversion from U.S. GAAP to IFRS.

Members of the Committee would be pleased to answer any questions the Commission of the Staff may have regarding our response. Please feel free to contact me at (212) 484-8112 if you would like to discuss specific issues.

Sincerely,

Allan Cohen

Allan Cohen
Chair, Financial Reporting Committee,
Institute of Management Accountants

[1] IMA Financial Reporting Committee letter to the SEC on File Reference S7-27-08: *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers*, dated March 26, 2009