



October 15, 2007

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-3628

File Number S7-20-07

Dear Sirs and Madams:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards*. The organization and operating procedures of the Committee are reflected in Appendix A to this letter. These comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

Questions 1 – 13

The committee does not believe that U.S. issuers should be allowed to prepare financial statements in accordance with IFRS as published by the IASB. We believe that investors, U.S. issuers and market participants will be best served when convergence of U.S. GAAP and IFRS reach full fruition. The SEC's mission is to provide investor protection; to maintain fair, orderly, and efficient markets; and to facilitate capital formation. The Committee believes that accepting two reporting standards, without convergence of those two standards, is counterintuitive to the mission of the SEC. Once convergence is achieved, there will no longer be a question of how financial statements should be prepared.

We understand that certain U.S. issuers have incentives to prepare financial statements in accordance with IFRS. Those entities and their auditors are already prepared to do so. However, we do not perceive that a vast majority of issuers or investors are clamoring for a choice, nor are they fully prepared for such a significant paradigm shift. We do not foresee negative consequences if the Commission continues to require U.S. issuers to report in accordance with U.S. GAAP.

The Committee believes that giving U.S. issuers the choice to report in accordance with IFRS could have a negative impact on the standard setting role of the FASB. As a shift toward IFRS emerges, the IASB will be seen as the standard setting authority. The FASB

will certainly be a strong voice at the table. However, there is diminished authority for the FASB, and consequently the SEC, under that scenario.

The desire for the development of a single body of internationally accepted financial reporting standards is global. Giving U.S. issuers a choice to report under IFRS does not in and of itself further that development. That is up to the IASB and the FASB. If they reach substantially different conclusions in the convergence process, the FASB and the Commission do not have oversight of the IASB. The Commission decides which accounting standards are generally accepted for purposes of U.S. Securities Laws. Would the Commission continue to support both a unique U.S. GAAP and IFRS? We believe the Commission would have to choose.

In the event the SEC decides to move forward, the Committee thinks the SEC should gain further experience with foreign issuers before permitting U.S. issuers to report under IFRS. Additionally, if the decision is made to move forward, the Committee does not agree that this should be a choice for all issuers. We believe that two criteria should be met before U.S. issuers are given permission to report under IFRS. Specifically, those issuers need to conduct business in certain industry sectors or markets where their financial results would compare more efficiently with competitors who report under IFRS (and) the extent of statutory reporting for those issuers needs to be such that reporting under IFRS is cost beneficial. The Committee believes that reporting under IFRS should meet the needs of its users and benefit the entity's shareholders.

Question 14

It is not clear to this Committee that U.S. investors, U.S. issuers and other market participants are well enough informed about the functioning of the IASB to assess whether the process by which IFRS are promulgated is sufficiently robust to guarantee high quality standards. In particular, these parties likely are not aware of procedural differences between the FASB and the IASB and how those differences might affect the resulting standards.

It is even less clear to us that market participants will have confidence in the process in the future should U.S. issuers be allowed to file using IFRS. It remains to be seen whether and how allowing U.S. issuers a choice of reporting regimes will affect the standard-setting process of the IASB and, for that matter, the FASB. Will either of these bodies have incentives to compete for companies to use their standards? If so, what will be the nature of this competition? Will this competition be to develop the clearest, most transparent standards? Or, will it be to develop standards that portray the issuer in the most favorable light?

Question 15

It is not clear to the Committee what is meant by the term "official recognition." We assume that allowing U.S. issuers to file financial statements under IFRS would be interpreted by market participants as official recognition of those standards. So, we do

not understand what else is meant by the phrase. If the Commission intends this phrase to mean something other than allowing issuers to use IFRS, it should be explicit about what that meaning is.

Question 16

The Committee has concerns regarding this relationship, and we believe many market participants do as well. The Commission has the legal authority to set accounting standards for financial statements filed with the Commission, and it has delegated much of that responsibility to the FASB. Because the FASB is responsible for setting standards only within the United States, the Commission's oversight role can be administered effectively. On the rare occasions when the Commission feels compelled to overrule the FASB, it can. But, more importantly, the FASB can take input from the Commission to be sure that such situations are extremely rare. Because the IASB is responsible for standards in many countries, it will be less able to anticipate the Commission's disagreement by structuring standards in a way that is acceptable to the Commission. This is because the securities regulators in other countries may have differing views from the Commission's, making it impossible to set standards with which every regulating body finds acceptable. The Commission may, as a result, have to choose between overruling the IASB more than it has done with the FASB on the one hand and effectively giving up control of the standard-setting process on the other.

Question 17

The costs incurred by market participants to become sufficiently familiar with IFRS will be very significant. However, our Committee believes it is not the role of the Commission, or any other governmental body, to train, educate, or assist investors with understanding financial statements prepared under IFRS. In an economy based on private-sector investment, it is inappropriate for the Commission to take on any responsibilities other than setting rules, including accounting standards, designed to protect investors, and enforcing those rules. Educating investors should be left to the private sector.

Question 18

The only incentive for creating the extensive additional training material that would be required if U.S. filers are permitted to use IFRS is to fill the need created by doing so. That is, there is no purpose to adapting training materials for IFRS other than as a reaction to this possible change, and so all of the costs to doing so should be viewed as dead-weight costs of regulatory compliance. Our Committee cannot even begin to estimate what that cost would be, other than to say it would be very large. The transition is likely to take several years.

Because the costs of training would be so substantial, our Committee believes the Commission should proceed only if it can demonstrate clear economic benefits that outweigh those costs. We are skeptical that such benefits exist.

Question 19

The content of the Uniform CPA Examination would have to be changed if the Commission were to allow U.S. issuers to file financial statements using IFRS. The CPA examination is designed to test whether accountants have the requisite knowledge to work in an entry level position. Therefore, if U.S. filers could use IFRS, it would be necessary to test on both U.S. standards and IFRS. This would add significant expense to the administration of the CPA Examination, which ultimately would fall on candidates who take the exam.

Because of the changes in the Uniform CPA Examination we expect, along with the demands of accounting firms, our Committee expects there would be pressure on colleges and universities to incorporate IFRS into their curricula. This would involve significant costs to develop and deliver those courses. In addition, it is already the case that many students do not take every course that would be useful for the CPA exam because of lack of time in their academic programs. If an additional two or three financial accounting courses were required to incorporate IFRS, this would like exacerbate the problem.

Although our Committee does not believe it is the Commission's responsibility to solve these problems in the event it allows U.S. filers to issue financial statements under IFRS, we do believe these are significant costs to the economy that the Commission ought to take into account as it deliberates whether to go forward. In particular, the Commission should only go forward if it demonstrates clear economic benefits that significantly outweigh the costs that would be imposed. As discussed in our conclusion, our Committee is skeptical that the Commission will be able to demonstrate such benefits.

Question 20

It is imperative that auditors understand thoroughly the rules underlying the financial statements they audit. Thus, U.S. auditors would need to be as well versed in IFRS as they are in U.S. standards. As discussed above in the context of training costs, this would be an expensive undertaking. In addition, it would be an undertaking that would be more difficult for medium-size and smaller accounting firms, which are less likely to already have IFRS expertise on their staffs. Thus, it will be an opportunity for the Big Four to take additional market share by attracting mid-market firms that want to report under IFRS but whose current auditors are unable to serve them adequately.

In addition, a key difference between IFRS and U.S. standards is the concept-based approach of IFRS versus the rules-based approach of U.S. standards. Auditors will have to learn to deal not only with different standards, but with completely different approaches to how those standards are implemented.

Question 21

We believe differences between the two sets of standards should be at the heart of the discussion as to whether U.S. filers should be permitted to use IFRS. The FASB and the

IASB have been working toward convergence of their respective standards over the past few years. Different people may have different views about the extent to which convergence has occurred, and our Committee takes no position on that question. However, regardless of whether one believes there has been significant convergence or not, we believe the analysis leads to a reason to suggest that U.S. filers not be permitted use IFRS.

If one believes significant convergence has not occurred, then the differences between U.S. and international standards suggests that allowing U.S. issuers to use IFRS would be confusing to investors and that it would offer opportunities for firms to select their reporting regimes strategically. In addition, if the FASB has decided in a number of areas not to adopt a standard similar to IFRS and the FASB is charged with setting accounting standards for U.S. firms, then IFRS should not be deemed acceptable for reporting by U.S. companies.

If, on the other hand, one believes significant convergence has occurred, then there are few important differences between the two reporting regimes. In that case, it is difficult to understand how there could be significant benefits to allowing U.S. filers to use IFRS. That is, if IFRS and U.S. standards are substantially the same, then there is no reason to force investors and other market participants to incur the substantial costs of understanding the relatively small differences that remain.

Thus, while differences between the two sets of accounting standards is central to the analysis of whether to allow U.S. filers to use IFRS, regardless of the extent to which differences exist, we believe the conclusion about the issue at hand is the same.

Question 22

Our Committee does not know what the costs would be, but believes they would be large by any standard. Direct costs would involve significant retraining of accounting staff, while indirect costs would include the additional costs of audits and system design.

Our Committee also believes it is incumbent on the Commission to determine the costs are justified by the benefits before undertaking such a massive change in accounting. We are skeptical that it is possible to justify such costs and do not know how one could even measure the benefits. Nevertheless, we believe that as the FASB and IASB move closer to true convergence, the benefits, however measured, would undoubtedly be small.

Question 23

The U.S. economy is one where anything that is demanded is supplied. The audit profession as a whole will provide audits to all who require one, whether the underlying financial statements are based on U.S. standards or IFRS. However, larger accounting firms will be in a better position to serve the demand for IFRS-based audits because of their existing expertise in foreign offices or in U.S. offices that serve multinational

clients. Thus, we expect the larger accounting firms to increase their market shares if U.S. filers are permitted to use IFRS.

Question 24

As noted in our response to question 23, we believe audits of IFRS financial statements will go to those accounting firms most capable of performing them. Thus, we do not see an audit quality issue, but rather an increased market share concentration among the largest audit firms.

Question 25

Our Committee does not foresee significant changes to U.S. audit standards if U.S. issuers were permitted to file using IFRS.

Question 26

Our Committee does not believe U.S. auditors will be leaders in creating global consistency of IFRS. A fundamental difference between IFRS and U.S. standards is the conceptual nature of IFRS and the rules-based approach in the U.S. Even as the FASB has made attempts to issue more concept-based standards recently, U.S. GAAP as whole is still largely rules based. Our Committee does not believe the U.S. audit profession will be able to take the lead in promoting consistency in such a different environment, especially one in which it has not participated extensively.

Question 27

Just as the U.S. accounting and auditing profession has not dealt extensively with IFRS, neither has the Commission. We believe that as a result it will be difficult, at least in the short run, for the SEC to address issues of inaccurate or inconsistent application of IFRS. The Commission will have to establish some sort of organizational structure to deal with IFRS financial statements. This would involve additional costs to be absorbed by the U.S. economy with no clear benefit to offset them.

Question 30

Our Committee believes that selection of accounting methods from acceptable options is at the prerogative of each firm and the level at which approval is required should be based on each firm's own policies. Thus, our Committee believes that the Commission should make no statement about the level of approval required to make such a decision.

With respect to disclosures, if IFRS were to be an acceptable method for reporting, the switch to IFRS should be subject to the same rules and disclosures as any other accounting method change.

Our Committee has significant concerns about a management's motivations for making the switch to IFRS. We see no economic benefit to doing so – the firm's cash flows and therefore its underlying economic value will be unchanged – while there will be significant costs. Thus a clear possibility when there is a change is that management simply prefers the appearance of the financial statements under IFRS. This is hardly a compelling reason for a change in accounting.

Question 31

Our Committee believes some market participants are currently ready to deal with IFRS statements, while others are not. Under the current reporting regime, investors who are not comfortable with IFRS can avoid firms using it by focusing on U.S. based investments (and perhaps owning foreign investments only indirectly, say via a mutual fund). If U.S. issuers are permitted to file under IFRS, it will be more difficult for those who are uncomfortable with IFRS to avoid companies that use it.

Question 33

Our Committee believes there should be a limited amount of time for adopting IFRS because this will at least mitigate the problem of strategic adoption of IFRS.

The second portion of this question essentially alludes to dissolution of the FASB. It is within the Commission's prerogative to select a different private-sector body for setting accounting standards. However, if the Commission currently believes this is a possible outcome and that allowing U.S. issuers to use IFRS will move the U.S. in that direction, then we believe debate on that issue should be held simultaneously with the proposal to allow both standards rather than after the fact.

Question 35

Although our Committee allows for the possibility there may some exceptions carved out, we believe the choice to adopt IFRS should be irrevocable. Consistency of reporting methods over time is an important element of the reporting environment, and allowing switching back and forth will severely impair that consistency.

We appreciate the opportunity to offer our comments.

Sincerely,

John A. Hepp, Chair
Accounting Principles Committee

APPENDIX A
ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2007-2008

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

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Alvin W. Herbert, Jr., CPA
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