The Hundred Group
of Finance Directors

Financial Reporting Committee

James L. Kroeker Esq
Chief Accountant
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
United States

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Dear Mr Kroeker

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'

We welcome the opportunity to comment on the Staff paper and are pleased to submit our views.

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the UK FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our interests

We have consistently supported the objective of achieving a single set of high quality, globally accepted accounting standards.

We recognise the significance of the capital markets in the United States and welcomed the Commission's decision a few years ago to permit foreign registrants to file financial statements prepared in accordance with IFRS without reconciliation to US GAAP.

While the number of our members who are registered with the Commission has declined in recent years, many of our members continue to conduct business through US subsidiary companies. Such subsidiaries may be required to prepare financial information under US GAAP for tax and regulatory purposes locally but must prepare financial information under IFRS for consolidation purposes. Maintaining accounting records under two different accounting frameworks imposes an additional cost burden on our US subsidiaries and may act as a disincentive to conduct business in the US as many other jurisdictions now permit or require the financial statements of unlisted companies to be prepared in accordance with IFRS.

Our understanding

We understand that the Staff Paper explores just one of a number of approaches being considered by the Commission, which include full adoption of IFRS on a specified date without any endorsement mechanism; full adoption of IFRS following staged transition over several years; and an option for US issuers to apply IFRS. We are aware that some commentators have suggested that the US retains US GAAP with continued convergence efforts, with or without a specific mechanism in place to promote alignment with IFRS.

We understand that the so-called 'condorsement' approach that is considered in the Staff Paper would involve the retention of a US standard-setter and facilitate a transition process by incorporating IFRS into US GAAP over a defined period of time (possibly five to seven years) with the objective that, that the end of that period, a US company that is compliant with US GAAP should be able to represent that it is also compliant with IFRS as issued by the IASB.

Our experience

We recognise that US GAAP is the probably most comprehensive set of accounting rules in the world and the significant effort that has been made by the FASB to codify US GAAP with a view to making it more accessible to users. Nevertheless, at the very least, we would hope that there is a continued reduction of the number of differences between US GAAP and IFRS. We would prefer that US GAAP either fully converges with, or is replaced by, IFRS.

We understand that there may be some resistance to the replacement of US GAAP with IFRS from the many US companies that do not operate internationally and may see little benefit to themselves of adopting IFRS. We therefore recognise that an option whereby US GAAP is retained but converged over time with IFRS may be more acceptable to some (perhaps most) of your constituents.

Our members were among those companies that were required by EU Directive No. 1606/2002 to adopt IFRS for the purposes of their consolidated financial statements for accounting periods beginning on or after 1 January 2005. As late as March 2004, some important accounting standards had yet to be finalised by the IASB (including IAS39 'Financial Instruments: Recognition and Measurement'), yet European companies successfully completed the transition from UK GAAP to IFRS in a little over three years. Since 2005, there has been convergence between IFRS and US GAAP so we would expect that the transition to IFRS would be somewhat less onerous for US companies than it was for European companies. If the Commission were to decide towards the end of 2011 to replace US GAAP with IFRS with an adoption date of, say, 1 January 2015, this would provide US companies with a similar period to prepare for transition as was offered to European companies.

We found that a 'big bang' approach to transition provided certainty for companies, investors and other stakeholders and enabled them to develop coherent transition strategies. Moreover, the IASB's undertaking that there would be a 'stable platform' for a period of time after European adoption of IFRS to allowed learning and practice to become embedded before there were any further significant accounting changes. We found that investors and analysts became familiar with IFRS relatively quickly, due largely, we believe, to the efforts made by companies to brief them in advance of releasing their first financial reports prepared under IFRS.

While our members have experience of a big bang approach to transition, we also have experience with gradual convergence. For various reasons, most of our members have continued to prepare their separate financial statements and those of their UK subsidiaries in accordance with UK GAAP. Since 2004, the UK Accounting Standards Board has effectively suspended its independent standard setting and has gradually introduced into UK GAAP new accounting standards based on IFRS in areas that were not previously addressed by UK accounting standards or where those standards were out of date and in need of reform. In our view, this resulted in a less coherent set of accounting standards which is a half way house between previous UK GAAP and IFRS. Mindful of this situation, the UK Accounting Standards Board has recently proposed that, for most companies in the UK, current UK GAAP will be replaced by IFRS for SMEs using a ‘big bang’ approach.

Based on this experience, we are concerned that the condorsement approach would contribute to considerable confusion in the market over an extended period and increase the administrative cost and burden for preparers and users as they would be required to understand the implications of new standards, amend their systems and train their staff on a piecemeal basis. We note that the Staff has already identified a number of concerns similar to our own and we would recommend that these are given full consideration.

The role of the Commission and the FASB

We are concerned that the Staff may be assuming that the FASB will have a more influential role in the development of international accounting standards than it may be reasonable for it to have in practice. We note that the Staff paper states “The FASB would play an instrumental role in global standard setting by providing input and support to the IASB in developing and promoting high-quality, globally accepted standards; by advancing the consideration of US perspectives in those standards; and by incorporating those standards by way of an endorsement process into US GAAP”. While we recognise the significance of the US to the global economy, we believe that that the IASB must be even-handed towards the interests of all of its constituents.

We note that it is proposed that the FASB “….would retain the right to modify or add to the requirements of IFRS incorporated into US GAAP” and “…would exercise its authority as the national standard setter when it found, based on its experience in the ongoing interpretation or application of IFRSs incorporated into US GAAP, that supplemental or interpretive guidance was needed for the benefit of US constituents”. If this were the case, we find it difficult to envisage that the condorsement approach would result in a version of US GAAP that is aligned with IFRS. We would expect that the pressure on the FASB to modify or interpret IFRS will be irresistible.

Our experience of the EU’s endorsement process is that typically new accounting standards have been endorsed with very little time to spare before their mandatory effective dates. We believe that this causes unnecessary uncertainty for preparers and serves to undermine the confidence of investors in accounting standards.

We believe that it is vital that IFRSs are issued and amended only by the IASB and where interpretation is needed it is provided by IFRIC in both cases observing established due process. While the appropriate time to influence accounting standards is therefore at the development stage, the FASB must appreciate that it is but one of the IASB’s global constituents and that the international authorities have delegated to the IASB the right to decide between differing views.

We are concerned that if the FASB is considered to have too great an influence over the IASB or the Commission is seen to endorse modifications to or interpretations of IFRS for use in the US, this is likely to encourage other authorities to modify or interpret IFRS for use in their own jurisdictions or even move away completely from international accounting standards. We hope that the Staff will recognise how detrimental this would be to global accounting convergence which has been a common objective of the FASB and the IASB for so many years.

We therefore believe that the importance of the Commission's forthcoming decision on whether, when and how the current reporting system for US companies should be transitioned to a system incorporating IFRS cannot be overestimated.

Option to adopt IFRS

If the Commission decides to pursue an approach other than the replacement of US GAAP with IFRS, we would urge it to allow those US companies who wish to adopt IFRS to do so without requiring reconciliation to US GAAP. Even if the US chooses not to embrace IFRS, most of the rest of the world is doing so and it would be to the disadvantage of many US companies if they were not on a level playing field with foreign registrants, many of whom are their competitors. On the other hand, we would remind the Commission that if the playing field were to be levelled by requiring foreign registrants once again to provide reconciliations between IFRS and US GAAP this would seriously undermine the attractiveness of US capital markets to foreign registrants.

We request that the Commission makes it clear that if it were to adopt the condorsement approach and the FASB were to make modifications to IFRS for incorporation into US GAAP, whether it would require foreign registrants to comply with IFRS as issued by the IASB or IFRS as modified by the FASB.

Please feel free to contact me if you wish to discuss our comments.

Yours sincerely

Chris Lucas

Chris Lucas
Chairman
Hundred Group – Financial Reporting Committee