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Gregory Jonas
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Kevin Spataro

Gerry White

Bill Yeates

Ron Zilkowski

C O N T E N T S

P R O C E E D I N G S

OPENING REMARKS

MR. KROEKER: Good morning, and welcome to everyone here and also to those participating on the webcast.

Now, let me offer a special welcome and thank you to the panelists for joining us today to explore the benefits and challenges in potentially incorporating IFRS into the financial reporting for U.S. domestic issuers. This is an important undertaking, and your views and input are critical to our information-gathering process in determining whether, and if so, how to best incorporate IFRS for U.S. issuers.

I am Jim Kroeker, Chief Accountant of the Securities and Exchange Commission, and I am joined on the staff, to my right, by Shelly Luisi, a associate -- or SACA in our group of OCA, and by Lona Nallengara, Deputy Director in the Division of Corporation Finance.

Today it is my distinct honor to introduce the chairman of the SEC, Chairman Mary Schapiro, and we will be joined by other commissioners throughout the day.

With that, I would like to turn it over, Chairman, to you for any opening comments or remarks that you have.

CHAIRMAN SCHAPIRO: Thank you very much, Jim, and thanks to you and your staff for organizing this. And I also want to add a special thanks to Leslie Seidman, Chairman of the Financial Accounting Standards Board, and to Tricia O'Malley, formerly of the Canadian Accounting Standards Board, and former IASB member. We are particularly pleased to have you with us.

As Jim said, the issue and the decision about potentially incorporating IFRS into the U.S. reporting regime is a major decision for this agency, and one not to be taken lightly. And our decision-making will be guided by investors' needs. So it is particularly important for us to have the input that we are going to receive today from investors, small preparers, and regulators as we think about how to go forward with this important decision.

And, as I said, our primary focus will be to ensure that investors have the information that they need in a form that is helpful to them to make decisions about the allocation of their capital.

But we are also mindful of the costs, and we want to make sure that, if we go in this direction, that we have a transition that makes sense, and is realistic and rational. And again, all the while ensuring that we protect the needs of investors in this process.

So, I look forward to a very productive and informative roundtable, and want to thank everybody for taking the time from their busy schedules to participate today.

MR. KROEKER: Thank you, Chairman Schapiro. And I want to join you in thanking both Leslie and Tricia for joining us today. They are observers, so they should feel free to participate in any way they want, to ask questions or to provide any clarifying remarks. But the objective here isn't to put them on the spot today, it is really to hear from our panelists.

But before we move on, I do want to provide the standard disclosure, that the comments that you hear today are those of the individuals, the individual staff members, they don't necessarily reflect the views of the Commission or others on the Commission staff.

In February of last year, the Commission affirmed its support for a single set of high-quality, globally-accepted accounting standards. The Commission acknowledged this objective, and that it would benefit U.S. investors, and is consistent with the SEC's mission of protecting investors, maintaining fair and orderly capital markets, and facilitating capital formation.

Financial reporting plays a critical role in establishing and maintaining the confidence of the investing public. As such, we must carefully consider and deliberate whether incorporating IFRS into our financial reporting system is in the best interest of U.S. investors and of U.S. markets.

To assist in that evaluation, the Commission directed the staff to execute a work plan. Since that time, the staff has invested significant time and effort in executing on that plan.

The roundtable today is an important part of that work plan, and will consist of three panels representing: investors; smaller companies, including smaller public, and in one case, a smaller private company; and a panel that is focused on the perspective of other regulators. These panel discussions will focus on topics including investor understanding of IFRS, and the impact on smaller companies, as well as the effect on the regulatory environment if the Commission were to incorporate IFRS for domestic filers.

Let me quickly review today's agenda. The investor panel, which is the panel that we will start with, will run approximately until 11:45. We will break at that time for lunch, and reconvene around 1:00, at which time we will then turn to the smaller company panel that should run until approximately 2:30. Following that panel, we will hear from the regulatory group and close promptly by 4:00 p.m.

Each of the panels will begin with a short introductory set of remarks by any panelist who wants to provide either an opening statement, or briefly describe their views.

With that, I would like to begin today with the investor panel. We are fortunate to have with us a number of very experienced individuals who join us with a broad range of investing backgrounds. Again, let me thank each one of you for joining us today. And I will just introduce the panelists briefly.

Do we have you set up alphabetically? I will do it alphabetically, but if you just want to -- I guess your name tags are there.

But Neri Bukspan is an executive managing director of Standard & Poor's. We have also joining us Greg Jonas, managing director at Morgan Stanley; Mark LaMonte, managing director of Moody's Investor Services; David Larsen, managing director of Duff & Phelps; Mary Morris, investment officer for the California Public Employees' Retirement System; Kevin Spataro, senior vice president of Allstate Corporation; and finally, Gerry White, president of Grace & White, also the chair of the Corporate Disclosure Policy Council of the CFA Institute.

And I have been asked by at least one of the panelists to indicate that, at least for certain panelists, their views may represent their own views, and not necessarily the views of their organization. But I will let panelists clarify if that isn't the case. But that was one of the requests that I had.

With that, let me just kick off the panel. I will start closest to my right with Neri, if you have any brief opening remarks. And if people do, that's fine. And if you don't, I understand. We weren't trying to put you on the spot.

PANEL ONE:

INVESTOR UNDERSTANDING AND KNOWLEDGE OF IFRS

MR. BUKSPAN: Thank you, Jim. Thank you, Chairman Schapiro. And thank you for the -- convening this important event today. I will be brief.

I am representing the views of Standard & Poor's, although I may share some more information based on my own experience in analyzing financial information arising from the adoption of IFRS. In general, our views have more specifically expressed in various communication we had with the Commission, the various standard setters.

Standard & Poor's rating services supports the adoption of a single set of global financial statements. We believe that a well-governed and adequately funded board can establish global financial standards. We believe that those standards could be, to a certain extent, uniformly applied, and hopefully consistently enforced.

Our support of global economic standards substantially stem from global consistency. Broadly, we believe that there are substantial improvements that need to be made to accounting standards, whether they are emerging from the sets of IFRS or the FASB, as clearly evidenced by the robust agenda of both boards. We believe that those improvements could be best facilitated using a single board.

We also believe, to reiterate some of the comments that both Chairman Schapiro made, and Jim as well, it will facilitate greater deployment, effectiveness of capital, especially in today's globally -- the global capital markets, and the global implications that could arise from potential global arbitrage, global regulatory arbitrage, and other issues.

The few points that I am sure we are going to be discussing today is, you know, how you develop confidence in the structure and in the standards themselves. I just want to point to a few things, that the confidence in accounting standard is not just by the quality of the standards themselves.

I think it is a three-legged stool. It is the quality of the standards themselves. An area that I will probably elaborate later in the discussion is the quality of the disclosures surrounding the accounting choices made, and the financial statement information provided. And last, but not least, the quality of the enforcement and adherence to those accounting standards.

Lastly, I am sure there are many transition issues that we will elaborate later today. It is not -- it will not be easy. We have a few thoughts about how transition could be effected in perhaps a more seamless and cost-effective way. But this will be part of our discussion later.

And I look forward to our dialogue here, today. Thank you.

MR. KROEKER: Thank you very much. Greg?

MR. JONAS: Jim, thanks. I certainly appreciate the SEC's deliberate and thoughtful consideration of the future of accounting standards in the U.S. It is obviously an important topic in an important time, and I appreciate the chance to weigh in.

Overall, I am a fan of the condorsement idea that the staff articulated in its recent May paper. I believe it's the best way forward for us for three reasons.

First, condorsement accepts that incorporating IFRS in some form in the U.S. is superior to the U.S. going its own way.

Second, condorsement acknowledges certain harsh realities that I believe should disqualify other options from consideration.

And third, condorsement hedges against risks of IFRS failure.

Let me offer a few thoughts on each of these.

First, condorsement accepts that incorporating IFRS in some form is superior to us going our own way in the U.S. I think incorporating IFRS reduces needless diversity in reporting. Diversity in reporting standards obviously creates unnecessary diversity in reported statements. And this undermines comparability, which, of course, is a pre-requisite for quality financial analysis. Diverse languages are great for human culture, but are troublesome, obviously, for we analysts.

Just a few years ago analysts struggled translating a dozen different reporting languages in Europe alone. Today we have eliminated many redundant languages, narrowed choices available under IFRS, and better aligned U.S. GAAP and IFRS. There certainly has been progress, and it has been for the benefit of investors. Let's not do something that undermines the positive momentum that we have today.

Now, some have correctly observed that a common reporting standard will never eliminate reporting diversity. But it can reduce diversity. And, as in most things in life, we should not let perfection obstruct our progress.

Incorporating IFRS enables continued U.S. influence over IFRS. The U.S. going its own way, I think, would greatly reduce U.S. influence over IFRS development. Could we expect the rest of the world to forever embrace heavy U.S. influence when we would have rejected IFRS, ourselves? To stay in the IFRS endeavor, we need to commit to the IFRS endeavor.

U.S. investors are constantly exposed to IFRS through foreign private issuers or through foreign companies registered on foreign exchanges. It is likely that exposure will only increase in the future. Building a moat around U.S. GAAP only undermines U.S. investors who are analyzing companies following IFRS. The only way to protect U.S. investors is to maintain influence over GAAP and IFRS. Condorsement promotes both.

A second reason I support the condorsement approach is that it recognizes realities that I believe eliminate other options from consideration. Consider, for example, the option of wholesale adoption of IFRS over a short period of time. Many U.S. companies, particularly smaller companies, are U.S.-focused, and raise capital only in U.S. markets. These companies are likely to perceive IFRS adoption as mostly costs and little benefit. I suspect the SEC would struggle to muster political support for wholesale IFRS adoption, even if it tried to do so.

Consider also the U.S. going its own way. The SEC has long appreciated the analytical appeal of a common reporting language, and has rightly been an advocate for the rise and use of international standards. How ironic it would be if the U.S. were to turn its back on this longstanding policy, particularly at a time of progress and momentum?

Consider also the option of status quo. Just keep things the way they are today. I think condorsement also rightly rejects that today's status quo is a viable option for the future. The U.S. can't forever expect a special status in jointly developing IFRS.

Also, with alarming frequency, the IASB and the FASB are disagreeing on important matters. To date, I think the two boards have managed to work well together, despite separate governance, agendas, processes, and time tables. But ad hoc heroic efforts can only work for us so long. Ultimately, process changes are needed to support lasting improvement. By splitting the duty between the FASB and the IASB, in my view, the condorsement approach recognizes the importance of process change.

The third reason I support condorsement is that it hedges against risk of IFRS failure. It keeps U.S. standards and standard-setting in place, and at the ready, in case the IASB fails to meet users' needs for information. And it permits interpretation for U.S.-specific issues.

One issue condorsement does not address is whether some U.S. companies should have the option of adopting IFRS during the transition period. Is this a good idea? I believe it is not.

Options also often create needless diversity and non-comparability, and companies naturally elect them for self-serving reasons. Allowing the option increases risk associated with possible failure of IFRS. By allowing U.S. companies to adopt, we have -- irrevocably commit to IFRS. At that point, the remaining issue is when, not if. If something goes wrong with IFRS, we can't ask those U.S. companies who have adopted to revert to GAAP. Why burn that bridge now?

Jim, thanks again for your consideration, and I very much look forward to today's discussions.

MR. KROEKER: Thank you, Greg. Mark?

MR. LAMONTE: Thank you, Jim. And I will be very brief, as I don't have a lot to add to what Greg and Neri have already said. But I would like to join them in thanking Chairman Schapiro, Jim, the Commission, and the staff for hosting this roundtable, and in particular, for putting investor concerns and financial statement user concerns very -- at very much the center of this discussion. I think that is very important, and we very much appreciate that.

I don't think anybody disagrees with the ultimate goal that Jim stated in his opening remarks: a single set of high-quality global accounting standards, or what Neri added on to that, that those standards are consistently applied and enforced around the world.

Of course, we know this is something that is very difficult to achieve, and something we may never ultimately get to, particularly the last part of that, the consistently applied and enforced around the world.

And the path we choose to get there is not an easy one to decide on. But that doesn't mean we should stop working towards this goal. And I very much appreciate that we are continuing to do so, and do so in a very thoughtful way.

From an investor perspective, and particularly for my perspective, working at a global credit rating agency, this is very important to us. To give some perspective for my remarks today, we rate about 5,000 companies and financial institutions around the world. About half of those are non-U.S. So, in my day-to-day job, I am looking at financial statements prepared in IFRS, U.S. GAAP, as well as many other GAAPs, every day. So, getting to that single language for financial reporting is critically important to us.

What is also critically important to us is something that has been a terrific byproduct of the efforts already, which is the improvements that are being made to accounting standards along the way. The improve-and-adopt approach has been very helpful for the past several years, and there are many standards that continue to need improvement, and it is good that the boards are cooperating and working together towards those improvements.

Financial statements really are the cornerstone of what we do as investors and analysts. We need financial statements. We need to be able to compare one company to another. So, having that single global language is critically important to us.

The U.S. have long been thought leaders in the field of accounting. And I really hope that we can continue to do so, and continue to do so on the global stage. We need to be part of the process. We cannot adopt an approach of isolationism and shut ourselves off to what is happening in the rest of the world, as capital markets become more and more global.

So, I am very happy that we are continuing to think about this. We are taking a very thoughtful approach to how we continue to be part of the process, and think about how we might bring international standards into our reporting framework.

So, I am very pleased to be here today, and I look forward to the rest of the roundtable. Thank you, Jim.

MR. KROEKER: Thank you very much. David?

MR. LARSEN: Thank you, Jim. Chairman Schapiro, Commissioner Walter, members of staff, I appreciate the opportunity to participate in today's discussion.

Duff & Phelps is an independent financial advisory and investment banking firm, and an SEC registrant, as we are listed on the New York Stock Exchange. I work in our alternative asset advisory segment. In addition to working with hedge funds, private equity funds, and large institutional investors' pension funds and the like, I serve as a member of FASB's valuation resource group, the international private equity and venture capital valuations board, and a number of AICPA task forces, and have served in various capacities advising the Institutional Limited Partners Association. So, my comments today are my own and my firm's, and not necessarily those of any of the other organizations in which I participate.

I am a former auditor. But my -- and have spent time auditing in Germany and in the Czech Republic, but spend most of my time, as I said today, in the large global asset manager space. And in that role I see investors' perspectives as they look at -- as we look at -- financial information from thousands of underlying investments, both private and public, around the world.

My perspective includes the following: high-quality, uniformly-applied global accounting standards can, should, and will benefit investors around the globe. Establishing those uniform high-quality standards should take place with appropriate due process, without undue political influence.

I think FASB has demonstrated the ability to withstand some of those political influences, and I think that -- as has the IASB at times -- but I think that some of the -- we need to continue to monitor how well the IASB can accept the due process that FASB has executed so well.

High-quality, uniform accounting standards, while the ultimate goal, I think as was just stated, is, in many ways, just a middle step. The end game should be a uniform application of high-quality standards.

In the U.S., I think we have seen, especially in the last couple of years, the PCAOB directly or indirectly influencing auditor behavior. And auditors impact the application of accounting standards. Therefore, the same standard may be applied differently in different regulatory environments around the world. That is something that we have to understand and work towards solving, to the extent it can be solved.

In addition, we have had a good level of debate, and continue to have debate, particularly here in the U.S., of private financial information versus public financial information. Should we have different types of accounting standards?

From an investor perspective, revenue should be revenue. There -- an investor in a private company probably has as much or more information than does anyone else. And so, really, what -- the question should be a disclosure question, and not necessarily an accounting principle question.

As -- the investors that I work with focus on cash flows: former cash flows, or past cash flows, current cash flows, and future cash flows.

And, in many cases, that is the basis upon which they make their investment decision.

Whether or not a set of financial statements complies with U.S. GAAP or IFRS, in some ways, is a little bit secondary to those ultimate cash flow decisions. The importance of those accounting standards are that they allow access to capital markets, they allow access to debt markets, to equity markets, they allow registrants to acquire companies, and so they are critically important, coming back to a uniform system being, in my mind, one of the ultimate goals and pieces that we should be focusing on.

I look forward to our discussion today. And again, I am happy to be able to participate. Thank you.

MR. KROEKER: Thank you. Mary?

MS. MORRIS: Good morning. Mary Hartman Morris. Thank you, Jim. Thank you, Chairman Schapiro. Thank you for the opportunity to provide an institutional investor's perspective on the discussions and the benefits, of course, and the challenges in potentially incorporating IFRS.

I am here to represent CalPERS, the California Public Employees Retirement System, the largest public pension fund in the United States, with approximately $232 billion in global assets, and more than 11,000 public companies worldwide, within 47 markets. With more than 50 percent of our portfolio specifically in equities, one of our largest asset classes is invested outside of the U.S. CalPERS invests these assets on behalf of more than 1.6 million public workers, retirees, their families, and beneficiaries, in order to fund retirement and health benefits.

CalPERS is fundamentally a long-term fiduciary investor, with a vested interest in the stability of the markets and integrity of financial reporting. We believe financial reporting should provide users the information needed to make informed capital allocation decisions.

Accounting standards should strive to focus on the needs of users of financial statements, which foremost should be for the investors -- which is capital providers. We acknowledge the needs of other users, issuers, regulators, and the need for their input, though we believe the drivers for accounting standards for publicly-traded companies and the focus of work should be performed by standard-setters -- should be based on the needs of users -- of investors, ensuring auditability, enforcement, and of course, consistent application.

Up front, it's important for us to state that IFRS is -- there is a critical role of convergence in the wake of the crisis -- with the financial crisis, with the G-20 recognizing the need for convergence, as this is in the fundamental marketplace.

CalPERS is currently reviewing, of course, the SEC staff paper, and will be offering our support, but -- and looking at some of the application and some of the issues that we want to comment on.

Meanwhile, we like to ensure that we can offer support to address outstanding challenges in a practical way, as a process towards convergence must move forward.

CalPERS is committed to the integrity of financial reporting, and CalPERS does play an active role in the discussions around accounting and auditing standards through participation in numerous committees. I just want to mention just a couple.

CalPERS board member Lou Moret co-chairs the international corporate governance network accounting and auditing practices committee. CalPERS is a founding member of ICGN, participates in international debate and comments on issues which impact investors.

The mission of the accounting and auditing practice committee is to address and comment on accounting and auditing practices from an international investor, and a share owner perspective. The committee, through collective comment and engagement, strives to ensure the quality and integrity of financial reporting, globally.

In addition, CalPERS senior portfolio manager, Anne Simpson, is a member of the PCAOB's investors advisory group, and I am a member of the A&A -- ICGEN's A&A practices committee, the FASB's investors technical advisory committee, and the PCAOB standing advisory group. And CalPERS also informally participates on the Council of Institutional Investors' informal accounting and auditing group.

So, it's from this viewpoint and perspective that I would like to offer CalPERS's perspective throughout the roundtable. And I thank you for inviting CalPERS. Appreciate it.

MR. KROEKER: Thank you very much. Kevin?

MR. SPATARO: Thank you, Jim, and thank you, Chairman Schapiro. It is a real privilege to be here with all these distinguished panelists. And, like myself, many of us have spent the better part of our careers helping to refine, as well as maintain, the integrity of U.S. GAAP. And in the last decade, we have also spent quite a bit of time in the -- focusing on the emergence of IFRS.

And, as a panelist today, I am here to speak on behalf of Allstate, as a large, sophisticated institutional investor. And in that respect, we do support the adoption of a single, global accounting framework, and we do believe that IFRS could fill that role.

Having said that, we think it is also critical that if the IASB -- and if IFRS is to fill that role, that it needs to adopt processes similar to those processes that have made the FASB process of developing accounting standards such a success over the years.

And just focusing on -- just for a minute on some of those processes that I think are so important, or that we think are so important, one of which is the formal, continuous, and very transparent feedback from all constituents who are affected by the standards. That is number one.

Number two is a rigorous testing, and then transparent discussion of the results of the testing of development-stage standards. And then, lastly is a determination, ultimate determination, that the standards are comprehensible by and meeting the needs of investors, and that they're operational.

So, over the course of the next few months, what we are going to see is the finalization of some key foundational standards, IFRS standards, those being: financial instruments, insurance contracts, reporting financial results, revenue recognition, and leases. And I think that this will give us a peek into the future success in the development of accounting standards by the IASB as how that process works and whether or not it is effective, and whether or not it is effective at developing high-quality accounting standards, you know, similar to those that are currently developed in the United States.

So, with that, I will cede back to the chair, and I, like others, appreciate the opportunity and look forward to the discussion.

MR. KROEKER: Gerry?

MR. WHITE: Thank you, Jim. Let me just take half-a-minute to articulate my point of view. I am here, really, wearing two hats. One, I have been an analyst for more than 40 years. I have followed non-U.S. companies for virtually all of my career, and therefore, have had a strong interest in bridging the gap, so to speak, among the different languages that are used in financial statements worldwide.

My firm, which has been in existence now for 34 years, manages money. So every day I am making investment decisions based on the financial statements we read.

My other hat is as chair of the CFA Institute Corporate Disclosure Policy Council, which represents the views of our more than 100,000 members to the FASB, the IASB, the SEC, and other bodies in this area.

Surveys of our membership show overwhelming support for the idea of a single set of financial statements worldwide. Surveys also show overwhelming support for high-quality accounting standards to be used. And the question is, how can those two goals be accomplished? And I think that is part of what we are here to talk about this morning. Thank you.

MR. KROEKER: Thank you very much. And I would like to now turn to just an interactive Q&A type format, questions from us, as members of the staff, or from the commissioners, as well. If people aren't responding, I may feel compelled to call on individuals. So get ready. But I don't think we have a bashful group.

If you want to be recognized, just please turn your tent card up on end, or raise your hand, or we will figure that out, but just let us know.

I would like to start with a pretty fundamental question I think a number of you have addressed in your opening remarks. And it is really, I think, the biggest question. There are questions about the best approach, but I think the fundamental question is whether incorporation of IFRS into the U.S. financial reporting system is a good idea.

Again, I think a number of you have already hit on that. But if it is a good idea, are there things that ought to be addressed before that? Are there strategic approaches that should be taken? If it's not a yes or no answer, if it's more nuanced than that, what should we, as a staff, or what should the Commission be aware of?

And I guess I can just start -- I will start at the other -- you know, Gerry, if you have any comments on that -- we don't have to go across the room, but if people have comments, just raise your card.

MR. WHITE: Yes, that -- we could spend the whole morning just answering that one question.

Our concerns over the last few years have been in a number of areas. We have been concerned that the IASB does not have enough investor representation, both at the board level and at the trustee level. We have also expressed that view about the FASB.

We have expressed our concerns about the governance and funding of the IASB. And they have made movements in the right direction. I think we would say that they are not far enough along. But they do seem to be moving in the right direction.

But I think the -- while our -- the surveys of our membership show that they support a single language, so to speak, the surveys also show the expectation that what will result is, if you will, a common language with regional dialects.

Or, as some people have put it, IFRS as interpreted by the SEC. And that is the expectation of our membership, and that is not necessarily a bad thing. I mean those of us in the U.S. are well aware of the strong enforcement efforts of the Commission, and we would hope that would continue.

MR. KROEKER: Thanks. Mary?

MS. MORRIS: There is just a couple of areas that I wanted to make sure that we stated up front.

So, we already spoke about the preeminence of investor viewpoints. And I think, you know, the balanced representation, just what you had said, about the qualified investors on standard-setter staff, you know, standard-setting bodies, you know, application. The auditability of standards, as well as consistent interpretation by the auditors. I think the financial crisis, you know, did prompt some serious concerns about interpretations and the value of audits. I think, you know, the PCAOB right now is highlighting the need for discussion on the auditor's report itself.

The capital market regulation, enforcement of standards, right, I mean that's really important. The role of IOSCO. Whether or not the

IASB does have sufficient resources, and I think, you know, we will go into that later, with more discussion.

But what is important to CalPERS and other pension funds? You know, a global presence, comparability, consistency. Even integrated reporting. I think everyone knows IIRC is looking at that as well, the International Integrated Reporting Committee. Ensuring that financials incorporate environmental, social governance issue into their annual financial reporting that may impact the system's sustainability. So, I think both boards, whether it be the FASB or the IASB, should consider that.

Assist investment decision-making, of course. Integrity in the global markets. Building confidence. I think that is the most important thing. And then addressing systemic risk. So, I think I just wanted to make sure I added those.

MR. KROEKER: Gerry, you brought up funding. I think others have talked about funding and independence. And maybe that is a combined package.

It might help -- and I think that was one of the things we have heard here and heard elsewhere -- is a concern or a question that comes up in the whether to incorporate IFRS, something I would like to follow up on.

Obviously, the funding doesn't mirror the funding that we have after the passage of Sarbanes-Oxley, but doesn't differ significantly from the challenges that we had domestically prior to the more independent funding that came through Sarbanes-Oxley. But in many respects, the governance of the IASB and their trustees is modeled after the FAF.

And so, when I heard, just personally, changes about the structure itself, if people could provide us more granularity into what is it about the governance, you know, funding and governance otherwise, that would be kind of best suggestions for change. And I would leave that open to the group, because I don't think it was just you that raised that.

MR. BUKSPAN: Just a simple reaction, and maybe speaking only on my behalf, I can only surmise that there is an issue of funding that may relate to the existing funding and it may be indifferent or feel very, very familiar.

But to echo Mary's point, and I think what you are looking -- you are buying into a promise, into some futuristic state of financial reporting standards, and what those boards need to undertake, including some other areas that, you know, clearly your paper points to.

So, the question is, when you are moving your capital market into a different system, it may be very well akin to what you have today, but in making such a choice, and in making such an investment, you want to have the foresight to say, "Okay, do I have the right infrastructure that will support it, going forward?”

So, the reason that those issues are being raised, I believe they are critical issues, they are important issues, and important issues that need to be considered, even if they are identical, or virtually identical, to what you have seen today.

MR. KROEKER: Other perspectives? Yes, Gerry?

MR. WHITE: There is sort of an underlying issue here, which I would like to identify. The FASB conceptual framework states that the purpose of financial reporting is to provide information that is useful for investors to make decisions. And I believe that in the U.S. and Canada and probably in the UK, and perhaps a few other countries, that premise is accepted.

I am not sure -- in fact, I have strong doubts -- that that premise is really accepted in the rest of the world, even when people pay lip service to it. I think there are many countries where the views of management, of employees, of other so-called stakeholders are considered equally important, perhaps in some cases even more important than needs of investors. And I think that colors the whole process.

And the issue is that, you know, structures are, by themselves, not determinants. It is how they are carried out. And perhaps the monitoring board is a good example of that. My own reaction to that when it was first proposed was, "Oh, no, another way of putting political pressure on the IASB."

Now, my sense is that, so far, that hasn't happened. And hopefully, I was wrong. But it all depends on how things are carried out. But I would love to see that underlying premise that financial reporting is for investors get wider currency.

MR. KROEKER: So, if I hear you right, it's it's not quite so much about structure as it is the underlying commitment to the purpose of financial reporting, and then whether there might be different structural response -- I mean is that kind of the sense of -- the structural response might have to respond to differing pressures, globally.

MR. WHITE: Yes.

MR. KROEKER: Yes? Okay. Greg?

MR. JONAS: Jim, a couple comments on the broad issue of should we adopt IFRS in the U.S.

You know, do we want a single body of high-quality global GAAP? Most assuredly we do. Is IFRS the logical -- is the IASB the logical entity that we should look to, to set those standards? I think yes. I think it has earned that right over time. I don't think it is fully there yet, and I will get to that in just a second. But certainly it has made considerable progress over the last decade.

And, as a practical matter, what is the choice? I would also accept U.S. GAAP as being the global standard of the world, but I think that is highly unlikely.

Having said that, the IASB is, I think, in my -- from my perspective, an acceptable standard-setter for global GAAP, there are risks in the U.S.

of wholesale adoption of those standards in an immediate fashion. And here are a couple of those risks, in my view.

It is an institution that has worshiped heavily at the altar of principle-based standards. Who could disagree with the notion of principle-based standards?

But there is a difference between principled standards and principle-only standards. Remember, the goal is that companies who face a certain set of economic circumstances should report those circumstances similarly to other companies that face similar circumstances. That's the goal. And sometimes principle standards will get you there, and sometimes people need more guidance to get you to narrow the scope of diversity in reporting.

So, maybe principle-only standards can work in certain cases. But I can assure you they do not work in all cases. So, we need to be careful about jumping wholesale into the principle-only bandwagon, and that is a risk that we have, and that we need to stand ready to interpret standards, if needed, to narrow a diversity of reporting to a more acceptable level.

A second risk, I think, is that we have, from time to time, unique U.S. issues, changes in our tax law or so forth, where we would need to supplement existing standards with some guidance that help companies know what to do in unique U.S. circumstances, so we will want to be able to do that. We don't have a burning platform in the U.S.

I contrast this, our situation today, to what Europe faced a decade ago, when they had many, many reporting languages when the common union came together. They had a fairly urgent need to try to do something to level the playing field. And you recall in those days U.S. GAAP was becoming the global GAAP in the world, and many in Europe were not in favor of what they viewed to be a very rules-based system.

So, they had a burning platform, and needed to act, and they took dramatic action, and I think it was for the benefit, ultimately, of investors that they did that, which is great. In the U.S. we don't have such a burning platform, and so we can -- we have more to lose, I think, and we can afford to be more careful about this.

So, I go back to my opening comments, that the opportunity of adopting IFRS is high, but the risks are high. So what to do in those circumstances, it seems to me, is adopt but hedge risks. And I think condorsement does a very nice job of adopting, showing commitment in a meaningful, substantive way, but at the same time making sure that our robust standard-setting system and process stands ready to supplement and, if necessary, to stand in place of a system that could yet fail investors.

MR. KROEKER: Kevin, Tricia, and then Mark.

MR. SPATARO: The point I wanted to make is similar to one that I brought up in my introductory comments, and that is more about the process. And with respect to process -- and this touches on something that Neri had mentioned as well -- is that it's not just moving to an IFRS framework, it is also what that means for the future.

Because we have, really, two levels of interaction. We have the initial convergence, or the initial conversion, and then we have the -- you know, the eventual, you know, relationship that we will have with the new standard-setter as we continue to develop new standards.

So, right now, as I alluded to in my opening comments, is that there are still a number of standards that have yet to be completed, where we need to see this process play out. What we have experienced, and one of the benefits that we have with the FASB, is that we have a significant amount of experience in how to develop competent accounting and reporting standards. And that has been developed over many decades.

And I think that the cornerstones of that is having a process which is, you know, formal, it is, you know, highly interactive, it is transparent, and it is continuous. And that process is one that has the communication between the FASB, the FASB staff, as well as all of those affected constituents. And what we have learned over time is that if we are ultimately going to develop good accounting standards that work for investors, that we need to have all these constituents that are involved in the process.

So, again, what I would say is that in terms of the IASB, and whether or not they can fulfill that role that is traditionally -- at least for us in the U.S. -- that has been fulfilled traditionally by the FASB, they have to develop processes -- maybe not the exact same processes, but similar processes -- that achieve those goals of ultimately developing competent financial reporting standards that all the people who are using them have confidence in, because they were involved in them, they were involved in the consultative process, they understood how they were tested, they understood how the testing results were vetted, and they ultimately concluded, along with the FASB, that the standards were operational, and that they were meeting the needs of investors.

So, I think that in terms of process, that is critical.

COMMISSIONER WALTER: Is it possible that part of the process issues could be taken care of -- not all of them, but part of them -- by a continuing role for the FASB, to make sure that there is -- to gain that confidence, and, in essence, to have a dual point of entry, in terms of input, into those standards?

MR. SPATARO: I think that that's part of it. I would say that we have had an extremely positive experience working with Leslie and her staff, as we have provided input into the IASB.

But, having said that, the IASB has their own dynamic. So we can only take so far our interactions with the FASB. And I would say that they have just done, you know, a heroic job of getting across the views, you know, of the investor base here in the U.S.

But again, I think that if the IASB does not have those same types of processes that, you know, currently exist, and that, you know, Leslie and her board have, you know, competently, you know, nourished and, you know, over the years, that if they don't have those similar types of processes, that it still is a challenge for investors, and it is a challenge for the competency of the standards that ultimately evolve from that system.

MR. KROEKER: Tricia?

MS. O'MALLEY: Well, first, I would like to say thanks for the invitation. And I think you have, in various speeches, Jim -- and others have sort of referred to us as the canary in the coal mine on behalf of this whole process.

MR. KROEKER: I don't think we used those terms.

(Laughter.)

MS. O'MALLEY: Certainly my successor, as the chair of the Canadian board, has said that. And it is actually true, in some respects, that the Canadian environment is -- probably most resembles the situation that the U.S. is going to be in if it makes a similar kind of decision.

But I want to say -- so if there is any observations that we can make that -- in terms of our experience so far, because we are in the eye of the storm right at the moment -- we will be happy to do that.

I would like to go back to a question you raised, and some observations that Gerry made, and this is my perspective from the IASB years. I think that Gerry has put his finger on it absolutely, in terms of some of the concerns that people are feeling about the way some parts of the world view the purpose of financial reporting.

So, having been around when all of this discussion of the structure of the IASB and everything else was going on, it is absolutely certain that the model was the FASB structures. That wasn't the first model that was proposed, if you will recall, but it was the model that was eventually adopted, as a result of the strategy working party.

And so, people wonder why the worry about independence. And I think it is quite -- it became quite clear to us early on that a lot of people had signed on to the use of IFRS as their reporting language, without understanding that fundamental philosophy of the board that -- of the conceptual framework, and therefore of the board -- that financial reporting is for investors.

And I think that there are a lot of jurisdictions using IFRS where it is pretty clear that the standard-setting process has been under political control for a very long time, and some financial reporting decisions have been made in the interest of public policy, as opposed to investor decision-making. And politicians don't like to have power taken away from them, and there has been a lot of struggle in some jurisdictions for them to regain what they voted away, I think, without really knowing what they were giving up.

So, I think that -- and one of the reasons that I think the rest of the world would love to see both the U.S. and Japan join the IFRS family and make a commitment is it would provide an extremely useful counterweight to some of the other influences.

And people talk about the IASB, you know, bowing to political pressure. Well, the more politicians that are involved in putting the pressure on, the chances are that none of them are going to agree. And then it kind of takes the pressure off the board.

Because it's, I think, a useful thing to remember that -- and I also think that it would actually help the funding issue, and it would, I think, as Greg mentioned earlier, I think, serve to ensure continuous U.S. participation in the process, which I think is absolutely essential. But it is essential because it would always make sure that that investor focus remains front and center. And that, to me, is the critical, critical piece of the IASB continuing to be successful.

MR. KROEKER: That was very helpful. Mark?

MR. LAMONTE: I will be very brief, because I'm sure we want to move on to other issues, because there is many to discuss, but I would very much like to echo what Tricia just said.

High-quality standards come from an independent standard-setter and with an investor focus in mind. And there is, you know, two important elements to that. One is the susceptibility to outside influence and having structures in place that prevent that outside influence from having too much of a bearing on the standards that are set.

And I think Tricia raises a great point, that the more diluted that outside influence is by having global participation in the process, the better it will be for investors.

One other thing to add is the FASB has been terrific over the course of the last several years in building an infrastructure to seek investor views on financial reporting: the creation of ITAC, the outreach that they do during the standard-setting process. And I think this outreach and the views for investors that the FASB captures have really kind of influenced both boards, and have influenced the process generally.

And if we were to make decisions that were to really kind of separate the FASB from -- and U.S. GAAP -- from what is going on internationally, it would take a while for the international standard-setter to catch up and rebuild that infrastructure that the FASB has really created on behalf of both boards.

So, as someone who has to use financial statements around the world, I really don't want to see that happen. So it is important that the two boards can continue to cooperate, and we can continue to rely on all the good work that the FASB has done in seeking investor views.

MR. KROEKER: Thanks. David?

MR. LARSEN: I just wanted to follow up on Commissioner Walter's question. I think that, in many ways, the last several years, or post-Norwalk Agreement, that the healthy tension between the FASB and the IASB has created better standards, and that even in a world, let's say, of one standard, I don't know that the same thing that we have had over the last five years can exist in perpetuity into the future. I think there is already questions in other places around the world that the U.S. has too much influence on the IASB.

So, I think it is a -- while I think things have worked very well in the past five years, we are probably at kind of a crossroads. Maybe we can get through several of the items on the agenda and convergence, but I think it is probably unlikely to expect that FASB can exercise the same level of influence going forward that they have in the past.

It just -- I don't know that there is a solution to that, but we shouldn't just hang our hat on, well, it's working well now, it is going to work that same way in the future.

MR. KROEKER: Other comments on the more fundamental question of whether -- or structural issues that are really an impediment to -- or that ought to be fully addressed before any decision?

Again, I think we can probably dwell on that all day. We do want to get to a number of other questions, including how investors use financial reporting, how investors educate themselves.

I will maybe turn to that, just as a group of questions, and start with, you know, to what extent to investors rely on GAAP or IFRS as the fundamental basis for making decisions? Do they make changes to? Does a change from IFRS or from U.S. GAAP to IFRS, does it matter to investment decision-making? And then, as part of that, how do investors educate themselves today?

And maybe specifically -- and we can start with you, Gerry, if you don't mind -- because, obviously, the CFA plays a huge role in educating analysts and other users of financial statements. How does the CFA respond to the use of IFRS?

MR. WHITE: Okay, that's a long question. Let me try and be -- respond.

First of all, I have been involved not only on the advocacy side for CFA Institute and its predecessors, but also I was involved on the exam side for more than 25 years, ending about a year ago.

The CFA curriculum and exam program started incorporating what were then international accounting standards in the mid-1990s with, actually, the textbook of which I am the lead author, which, in its first edition, had material on IAS and other non-U.S. GAAPs, and the second and third editions of that text that focus increased. In the third edition we used an IFRS filer as one of the companies used throughout the text to explain financial statement analysis.

The textbook that is now used has the catchy title, "International Financial Statement Analysis," and IFRS is fully integrated with U.S. GAAP in that text. And the exam actually copied one of the learning outcomes, because I thought that was relevant.

One of the learning outcomes in the curriculum is to distinguish between IFRS and U.S. GAAP in the classification, measurement, and disclosure of investments and financial assets, investments in associates, joint ventures, business combinations, and special purpose and variable interest entities. I mean that really says it all.

And the exams themselves have had questions requiring candidates to take information -- there would be two companies, one using U.S. GAAP, one with IFRS, and make adjustments to earnings or debt-equity ratios or other metrics. So that IFRS has become central to the curriculum and exam program, and the Institute has also had a number of other publications and programs addressing it. We actually had a webcast last Thursday explaining the staff paper.

But the other part of your question is how do analysts use financial statements prepared using IFRS, implied how is that different from U.S. GAAP, and the answer is completely -- it depends. There is not a single model. You know, even the seven of us here would, if you pinned us down, would probably articulate seven different valuation models.

And so, at one extreme you have people who don't look at accounting standards at all, who simply use reported data. I would argue that that doesn't mean that standards aren't important, because if they are using flawed information they are going to make flawed investment decisions.

And at the other extreme, there are people who focus very much on the accounting standards. Analysts tend to use all information available. And the information provided may be a little different, depending upon whether it is U.S. GAAP or IFRS, but they use what they have, supplemented by what other information they can get. And they learn about IFRS, essentially, by doing, by reading the financial statements. And they see something they don't understand, they go to some internal or external resource, and try and get a better understanding.

And maybe I ought to cut off there.

MR. NALLENGARA: Gerry, some of the comments this staff and the commissioner received on investors' use of IFRS, or rather, the investor reaction to a change, or contemplation of a change, has been that, looking at the financial information, investors are really looking not so much at the underlying principles, but really changes in trends and information that is not really connected to the actual financial -- the standards being used.

So, to the extent that it is IFRS or U.S. GAAP is not so relevant, but it is relevant with respect to the change in trends. So if it was IFRS or U.S. GAAP it wouldn't matter to their -- or wouldn't have as much of an impact to their analysis of a company.

And I am just wondering where -- in the spectrum you describe, where that fits in, or whether that is a -- whether that is probably not the -- that is maybe a minority -- more a minority view of how an investor would look at a company, looking more at stock price trends and changes, rather -- in period over period, rather than based in the reporting system.

MR. WHITE: Well, a couple of quick comments. One, what I was trying to say is there is a continuum. Different analysts use financial information in different ways and to different extents. Some people don't look at it at all.

The other comment I would make is that the accounting standards do change trends. One example that comes to mind under IFRS your biologic assets at fair value, and the changes in that value mark to market, and changes every year. So it does change book value, earnings. So the standards do affect trends.

And am I answering your question? I am not -- yes?

MR. KROEKER: I don't recall who got their card up next, so I will just start with you, Mark.

MR. LAMONTE: Thanks, Jim. Let me kind of approach your question from a couple different angles. One, the use of financial statements in our process, and then how these accounting standards, under which they're prepared, influences that.

Financial statements really are critical to what we do. We have around 70 or so different methodologies for different industries that kind of inform our ratings. Those methodologies all have score cards behind them. Much of those score cards are weighted towards financial metrics, where we are taking those financial metrics and, you know, creating them from the financial statements. We will also think about qualitative factors like product diversity for a particular company, or their franchise value, or things like that.

But a lot of the weight that goes into informing our credit rating decisions are financial metrics derived from financial statements. Whether it is U.S. GAAP or IFRS, we don't necessarily accept the numbers as reported. We will make a number of kind of adjustments to improve the accounting standards where we think they're broken.

Areas like pensions or leases, where we think the accounting standards really don't capture the true economics, we will make adjustments. We will make adjustments to remove the effects of non-recurring items that affect our trend analysis.

So, we don't necessarily accept the numbers, as reported. We will also make adjustments to eliminate some of the differences between U.S. GAAP and IFRS, or other local GAAPs, where it is affecting our ability to compare one company to another.

But mostly, these methodologies, and most of the financial metrics we are looking at, are global. So these aren't, you know, regional methodologies, or regional financial metrics. They are global metrics that we are applying across all the companies we rate around the world.

Now, kind of getting to whether or not IFRS or U.S. GAAP really influences this, I guess one thing I can say is we don't shade ratings based on which accounting principles companies apply. So, applying IFRS -- you know, preparing your financial statements in IFRS isn't going to automatically get you a rating a notch or two lower. That really does not happen.

What does happen, though, is if we have concerns about how the accounting standards are being applied, or how the auditing of those accounts might be taking place, we will certainly shade a rating. So you will certainly see ratings, on average, lower in some emerging markets where we just don't have as much confidence in the numbers.

So, you know, whether it is IFRS or U.S. GAAP, for us at this point really doesn't matter. It is more about the application and the trust we have from the auditing of the numbers.

MR. KROEKER: Thanks. David, then Mary, then Kevin.

MR. LARSEN: Jim, I think the question is clearly very multifaceted, and goes in a lot of different directions. Whenever we say just "investor," well, there is different types of investors. There is the institutional investors, there is the CalPERS of the world, there is the retail investor on the street. There are those who are investing in public debt and equity and relying on a Moody's or a Standard & Poor's rating. There are those who are investing in private debt, private equity.

And all of those different -- and there are some that are investing through fund vehicles, whether it be a mutual fund or a private equity fund or a hedge fund. Some of those are publicly traded, some of those are privately traded. So all of those different investment options are available to investors, and they are all looking at various pieces of information. I think having a common backdrop of, whether it be IFRS or a U.S. GAAP, is important, and it is important almost more so for the potential exit, or when the investment is sold, than it is at entry.

In many cases, when someone is buying something, they -- the basis of accounting is almost a check-the-box exercise, particularly on the private side. So, you're looking, say, "All right, do they have an audit?" Yes. Almost don't ask if it's IFRS or U.S. GAAP, because you are independent of the financial statements, analyzing cash flows to determine what the value is, what the future value is, and that is the basis for investment decision. But you have access to information outside of the basic financial statements.

So, there is kind of a deep gulf here, in making some of these decisions, because investors have access -- I think, as Gerry mentioned, there is a big gamut of information that is available, and that drives what analysis is done. And there is not a direct answer to say, "Okay, I have to have IFRS, or I won't invest." I may pay something different if I don't have IFRS, or if I have IFRS from a particular emerging country, as opposed to Canada or somewhere else.

So, I think that there is wide ranges here. But fundamentally we come back to there needs to be an established framework that allows some -- let's say, to put -- I will use the analogy of putting bumper guards in the bowling alley. So you know that the bowling ball stays in the lane, and the -- whether you use IFRS uniformly, you keep that, and you keep those bumper guards coming in a little bit more over time, so that you get an established consistency. But not every investor needs everything at every moment.

MS. MORRIS: I agree. I think that -- I really want to push the point that, you know, our investment decisions are not made on whether a company invests in -- or a report in IFRS or U.S. GAAP.

I think, you know, due to our size, you know, from CalPERS, we do rely on the safety and the soundness of the markets, and so that accounting quality is very critical to us, and we do utilize that, just like David and others -- Gerry and Mark -- had mentioned about the soundness, and identifying the critical issues that we want to understand in evaluating a company.

However, we do know that, you know, capital doesn't know any boundaries, that standardization will help with economic efficiencies, maybe even provide additional transparency, you know, if we apply it consistently.

But I think also it might be that what Mark was mentioning, you know, maybe that hopefully it will help in time, that adjustments won't have to be made, as well.

So, I think it is important, you know, from the investors' perspective, that the credibility of the standards and what Mark has mentioned about the -- how auditors are providing an independent opinion.

But I think that the standards do have an underlying influence. I think that it was even identified through Dodd-Frank, and some of the articulation of some of the changes that investors really wanted, whether it be in derivatives or other items.

So, I think it is important that, you know, accounting does pay a critical role, but it is not the decision of, you know, we are going to look at if a company invests -- or report in IFRS or in U.S. GAAP.

MR. SPATARO: I am going to echo many of the same comments, but I am going to make a couple of different observations here as well, is that I would agree that, in terms of whether or not it is IFRS or U.S. GAAP really doesn't make a difference, in terms of analyzing the company and making the investment decision whether or not to invest.

What I would say, though, is that -- and part of that depends on whether or not it is a commercial company versus a financial services company. In a commercial company, in essence, we can look at -- you know, we can look at revenue, we can look at net income, we can look at EBITDA. But at the end of the day, as both Mary and David said, you're looking at cash flow. So, in essence, any number that is posted on the -- on -- you know, as net income, ultimately needs to convert itself to cash. So, that is where the cash flow statement becomes king.

However, when we are dealing with a financial services company, it is not so easy. And so, what I would say is that while it probably doesn't make a difference whether or not you're an IFRS or U.S. GAAP when making investment decisions for commercial companies, as we move forward and we deal with some of the thorny issues that we need to deal with, in terms of financial services accounting, insurance contracts, financial instruments, and how those models are going to change, and how those -- you know, and how the balance sheet, income statement, and disclosures will change. Then I think that that's, you know, a real critical consideration as to how that will affect investors.

CHAIRMAN SCHAPIRO: Jim, can I just ask a question?

A couple of you have mentioned the application of IFRS, and that is something we worry about a lot. And somebody -- I can't remember who -- described it as maybe one language with multiple dialects. And I wondered if any of you foresee a time, or worry about a time when, rather than the differences narrowing -- the bowling alley getting narrower and narrower, we start to see, on a country by country basis, expanding differences, and the bowling ball sort of moving further and further out from any kind of a pure sense of what IFRS is.

MR. KROEKER: David, it looks like you're --

MR. LARSEN: Well, I think -- Chairman Schapiro, I think that that is a real risk. I think that the bowling ball could clearly end up in different lanes, as interpretations are made. And I think we have seen that. I mean we have seen that in its own microcosm in the U.S. with the fair value debate. We saw where FASB, in 2008 and 2009, came out with FSPs to effectively say the same thing again that was originally in statement 157, because people were interpreting it different, and you had different audit firms with the ball in different lanes.

And so, really, I think where FASB created, let's say, additional guidance there, was restating the guidance that already existed.

So, even though you have a clear standard, or even a principle-based standard, you clearly are open for the ball being in different lanes. And I don't know that there is -- there is not a global body that can correct that. And that is one of the pieces that one has to deal with in a -- let's say a principle-based system and a global financial accounting system.

I don't know if there is a good answer to fix it, but it needs to be acknowledged, or go into it eyes wide open that that is a risk.

MR. KROEKER: Greg, then Tricia. And I think Neri had a comment, as well.

MR. JONAS: So, Chairman Schapiro, I would like to address your very good question, as well. I am also concerned about the interpretation and enforcement of IFRS standards, as written around the world. My sense is that we are more rigorous interpreters of standard in the U.S. than in many countries, and there is a risk of a pretty wide bowling alley, to use our analogy, in certain parts of the world.

But having observed that risk, I have heard some argue that, because of it, we should not adopt IFRS because -- the argument goes that we would have the illusion of comparability at the standard level, but a reality of very diverse reporting by companies. And I think I still would say it's in investor interests to adopt IFRS into the U.S. in some form, even with a risk of poor enforcement of reporting in some countries.

And my logic is that just by narrowing differences between IFRS and GAAP is helpful. Four quick examples: LIFO inventory, PP&E revaluation, the D in R&D, and pension accounting. I mean if all we did was to narrow those unnecessary differences in GAAP, we would all have more comparability. It would not be perfect comparability because of the widening bowling alley effect that you and others have concerns over -- I share those concerns, as I mentioned. But we would have better comparability.

And so, some improvement is better than no improvement. But, yes, I think I share your concern about enforcement in some jurisdictions.

MS. O'MALLEY: I would like to weigh in on the Chairman's question, too. That -- one of the other things I do is chair a group that is known as the national standard-setters, which is an informal body that gets together a couple of times a year of accounting standard setters from all over the world to talk about items of interest, and to talk to the IASB about things that we're interested in, following on their agenda.

One of the items that has recently been added to -- as a standing item to the agenda is what we call "topical issues," and it is questions of application and interpretation that individual standard setters have identified as potentially problematic in their jurisdictions that they want to expose to the whole group and see what people think.

And, in particular, one of the questions usually is, "Should this be given to the IASB to do something about," because there are often questions that are causing application differences, or problems.

The difficulty that I think some of the people are struggling with -- in particular, some of the standard setters who are used to trying to be helpful to their constituents by answering application questions for them -- is that the -- they are actually facilitating the creation of those different flavors by providing local interpretations of IFRS. So it actually narrows differences in the individual jurisdiction, but it may actually be creating more diversity in the application of IFRS, globally.

The thing that we have run into -- I'm going to change hats -- in Canada lately is not local dialects, but auditor-specific dialects of IFRS. And someone -- I think it was David -- mentioned earlier the influence of the PCAOB. Well, some of us have similar kinds of bodies, as well.

And one of the concerns that the Canadian board had, in particular in the application over the adoption of IFRS, was to try to make sure that our auditing regulator wasn't going to end up providing interpretations of IFRS when the Canadian board itself has sworn as much as it possibly can that it won't -- it will not do that, that we are trying to support very much the notion that the only body that is able to interpret IFRS is the

IFRS interpretations committee, or the board itself.

Our concern now is in terms of the resourcing of the IASB. So much has been thrown at the MOU projects. The interpretative function has not gotten nearly the resources that it needs, as more and more countries starting opting.

And we actually believe that one of the things that the IASB itself needs to do to help with the -- I really like the bowling alley analogy -- to get the bumpers up, and then to start narrowing differences, is to spend more time focusing on answering some of those application questions. And we don't think that it challenges the notion of principle-based, or principled standards.

But when -- you know, each one of the firms has global panels dealing with some of these difficult issues, and they are not dumb people. And when four groups of not-dumb people could struggle to figure out what the right answer is to some pretty basic questions in those standards, they deserve an answer, and they deserve an answer through the due process and in public, not firm-by-firm and behind closed doors.

Some of that interpretative activity is what caused many jurisdictions to invent things like the EITF. And our emerging issues committee was to get those application questions discussed in public, so everybody knew what the answer was.

And so, I think that, to the extent that all jurisdictions can resist the temptation to provide jurisdiction-specific interpretations, and we can all work together to urge the IASB to deal with questions we think need to be dealt with timely, the whole system will be a whole lot better off.

MR. KROEKER: Neri, then Mary, and then I would love to hear from the investors as well, if they have a perspective on Tricia's view of the need for better venue for interpretative guidance. To show my bias, I agree completely.

(Laughter.)

MR. KROEKER: But I would love to hear investors' perspectives on that.

MR. BUKSPAN: Thank you, Jim. I want to react to a few things that were actually discussed and expanded on, and I'm going to start in reverse order.

I would like to first react to the notion of enforcement and -- not enforcement. Consistency in the bowling alley issue. I do think that what we are discussing here today is putting the building blocks together to make sure that we are moving from where we are today to where we can be in the future.

So, I think some of the risks that are pointed to are risks that already exist today. And sometimes the important issue to recall is that if you follow different accounting standards to begin with, the issue of enforcement is not in evidence, because the discussion modeled between is it enforcement or is it the accounting world itself.

Some of the discussion that Tricia mentioned, including the accounting rules from an investor perspective, it is not something that we even appreciate. Those discussions are being handled in the CFO room, or in the treasurer. Investors don't even understand it. And they take place today. And they have serious implications of what investors see.

And when you don't have consistent language, then it is very difficult to even discern the implications.

Then you get to -- say, okay, and I pointed to the future earlier. Ideally, we are all going to be marching to the same music, we're going to have the same things. But this is probably not where we're going to be tomorrow. The question -- are we establishing the past, and we're putting the building blocks together to get us there, and are we going to be worse off by making particular choice, and how we can protect -- or, to Greg's point -- hedge those risks, as we selecting this path going forward, which are important issues.

Now, in this regard, what I do think is there is actually local flavors of GAAP. And the question is, to the extent that they are transparent, they are -- and people are actually sometimes troubled by the carve-outs -- I want to just put a proposition on the table that people are going to be bothered by carve-ins.

So, there are certain things that we have been accustomed in the U.S. to get -- for example, certain information such as oil and gas reserves that you don't get elsewhere, and certain other elements -- so I think we are not going to be so disturbed by those carve-ins. So I think we are likely to see those still playing out by various local standard-setters. And the question is, is that something that's going to cause us to --

actually deter us from the ultimate goal? Perhaps no. The question is, can you make sure that you have the right infrastructure to narrow it, and have the right influences within the system to navigate the system to the broader goal, which actually is my own belief.

I want to react to a few other things. I want to react to your question about, you know, trends. I think trends are important. Why? Because I think sometimes the discussion also muddies in the context of economic reality. I may hold a different view somehow, but I don't think the role of accounting is to depict economic reality. If the role of accounting is to depict economic reality, we can close business schools, we can send all the analysts home, and the economists can retire and just give it all to the accountants and say, "Hey, depict economic reality, everything else is" -- so I think we need to recognize the role of accounting as the role of language you need to convey information.

The fact that analysts are making adjustments is not a bad thing. I think the theory of financial analysis is distinct from the theory of accounting. And it is important to note. The computation of certain financial ratios -- and clearly, Mark has made the point that this is raw material, and we make adjustments -- and different users may have different objectives.

I think the role of accounting is to provide users as much information or material they will be equipped to make those adjustments that they need to make, not necessarily make all the adjustments in their behalf. Because then accounting will become one-size-fits-all. And under those circumstances, you need to recognize that different users may have different objectives, including those regulators, including the tax man that can have their own adjustments, for purpose of financial reporting.

Now, where it comes to trends, the reason that people look at trends, it's quite simple. But they are not only looking at trends, right? So when you invest in a company, you want to make sure that you get your return, but you want to understand what are the drivers of revenues, drivers of expenses, drivers of cost, and drivers of risks.

And sometimes, when you look at existing financial statements, you get some information from the footnotes -- from the statements themselves, but the statements themselves don't tell the whole story. You know? You can put financial statements -- can put them in front of every single analyst, and even if you have a value in the financial statement and the value has been audited by all firms and agreed by all firms and it's precise and we have the most consistent financial reporting system, it still tells you very little about risk. It tells you very little about what is driving the earnings.

You need information that analysts are taking outside the financial statements. Some of it comes from an MD&A. Sometimes it comes from discussion with management, which takes me to the last topic that I wanted to point to. And you ask about education, and Gerry started the dialogue on this panel in discussing education.

And there is an unusual area -- and we clearly train our analysts. We have hired individuals that, you know, serve as translators. They help our analysts with translating the accounting change, they follow the standard setters, they're contributing to the standard setting, and they are helping us to train the analysts.

But I think one of the main benefits, and where we are getting the most training is actually from dialogue with companies -- and Tricia maybe speak to that, in the context of the current changes in Canada. This is where we are getting great information.

When you have a measured transition, and companies are starting to get information to the market two or three years before adopting accounting standards, what the accounting changes will be, they are putting Power Point presentation in investor presentation, they are going to the analyst and say, "This is what is likely to change, and why."

My humble opinion, in addition to the training that we do, in addition to the books that, you know, Gerry may have written, I think this is a key element of education and training that any transition should consider, how we promote this key dialogue between companies and the market, which, in my mind, is a critical facet of education.

MS. MORRIS: I don't know if I can add much to that, Neri.

No, I actually want to make a couple of

comments. And thank you, Chairman Schapiro, for the visual. I think that's very -- an excellent visual on the bowling alley, on the differences.

No, I appreciate what you said, Tricia, and I think that, you know, as investors, we have to really consider that on the interpretations. And we debate that all the time in our office, and we are discussing this as we talk.

I know when my boss, Anne Simpson, she discusses, you know, why we should be supporting moving to IFRS, or at least to one global accounting standard, high-quality accounting standards, you know, she talks about that those differences already exist, and it's important to be at the table to sort of narrow those differences.

I want to be a little bit flippant with Neri, that, you know, investors do understand that sometimes, you know, there are some things that are happening with the auditors, and that is why we have a role, hopefully, in trying to make -- have some understanding, you know, what the PCAOB is doing at the auditor's table and in the enforcement.

But I think it is really important, what Neri mentioned -- and I will stop there -- was that it is all about how much information we get, as investors. So we have to pick and choose.

And, you're right. I mean I said earlier, you know, they might help with some of the adjustments. You know, it depends on what David was saying, what type of investor you are, and how do you utilize that information, and how you make your decisions. So that is customized, right, it is very personal to each institution. So -- and I just wanted to make sure I said that. Thank you.

MR. KROEKER: David?

MR. LARSEN: I think, to come to your question, Jim, if I remember it now, is really -- I would just echo what Tricia said, is that I think if we go down a path and we can get to, let's say, a single board, an IFRS as the basic financial statement, or the financial accounting standards setter, that we -- they do need to have the resources to provide feedback through things similar to the EITF or the valuation resource group, or ways to allow an open discussion of key issues, so that there is an ability to understand what -- how to apply very difficult judgements.

I mean we have mentioned the PCAOB several times. And not to keep them fully in one's sights, but I think that there is an indirect impact there of interpreting accounting standards that they may or may not be wishing to deliver, but that they are clearly delivering. And their actions are causing financial accounting standards to be interpreted in a way. Or in anticipation of what the PCAOB will do, are causing accounting standards to be interpreted.

And I think, to the extent that that happens differently by regulators around the world, then we have a risk of being -- of playing with not only different lanes, but different sized balls and pins.

(Laughter.)

MR. LARSEN: But to the extent that we can allow the interpretation to come from the standard setter through the open process, and to allow the regulators to focus on the regulator of the audit procedures, we may be able to get to an answer that works much better for everybody.

MR. KROEKER: Greg, and then Gerry.

MR. JONAS: So I would like to weigh in on the interpretative mechanism.

You know, sometimes in practice we don't have a bowling alley. Practice widens to that of an expressway. And we have companies facing similar economic circumstances that report very differently. And they can do that either because of poor enforcement, as we have talked about before, or because we have an issue with the standards, and we have, say, a principle that is subject to varying interpretation.

And an expressway-wide playing field is just too darn wide for investors. An essential underpinning of financial analysis is comparability. So, we need to have an interpretive mechanism, and it needs to be robust, and it needs to be urgent, and we need to spot the expressways and narrow them to bowling alleys.

And when I look at the IASB's interpretive mechanism, it is all in place. I think the infrastructure is there. I share Tricia's concern that the infrastructure is not staffed as it should be, but the infrastructure is there. The problem is the infrastructure has been very unproductive, and it has been unproductive -- my interpretation is -- by design.

I mean there are folks who really want to say that we are principle-only standards, and we are proud of it. And that is not the test. The test is whether we are looking at expressways or bowling alleys. And if it is expressways, the principles be darned, we got to narrow the darn thing, and it is going to take some interpretation to do it.

So, I think we need a robust interpretation. I think it needs to be much more active than the current one that the IASB does. And it's one of the risks that I alluded to earlier that causes me not to want to jump both feet into wholesale adoption. But rather, I want to give, directionally, support to the IASB, because I think it's the way to go, but I want to hedge my risk, and one way I hedge is I keep in place the robust U.S. infrastructure that, if needed, will interpret these things, even if others choose not to.

MR. KROEKER: So, if I understand, Greg, the last piece of that is it ought to be done at an international level, but if, for example, we were to head down an endorsement approach, failure to address something internationally would say, then, a domestic standard setter should take the expressway and narrow it to a bowling alley.

MR. LARSEN: You said it much more eloquently than I did.

MR. KROEKER: No, I didn't. Gerry?

MR. WHITE: Yes. A lot of what I was going to say about the interpretation issue Greg just said.

But it seems to me there are three ways that things get interpreted. One is through enforcement actions. One is through big accounting firms do talk to each other. And the third way is through an official body, such as the SEC -- SIC (sic). And I agree. My sense is that they haven't wanted to interpret.

And I would suggest, Chairman Schapiro, that that is perhaps an issue that the monitoring board might want to raise. Because I would think that a lot of other jurisdictions would much rather have interpretations made by an official IASB body than by the SEC or by auditors meeting in private.

A different subject I wanted to briefly comment on. Neri said something about economic reality, and I am not sure he meant what it sounded like.

(Laughter.)

MR. WHITE: What -- I would agree that stockholders equity should not be the market value of the company. So, to -- in that sense, the role of financial statements is not to portray economic reality. But it does seem to me that, on an individual transaction basis, the accounting should reliably report the economics of what happened.

A simple example might be a lease which effectively gives the lessee, over time, total ownership of the asset to say, "Well, that's just an executory contract that doesn't require any recognition," is -- flies in the face of economic reality.

MR. BUKSPAN: I think we are in agreement, but I will reiterate that I think what -- I may look at what I've said in the replay -- but I do fully agree with you, that the accounting should depict the economics of the transaction, given the principles or the framework that accounting provides, which is quite distinct, than an economic reality of an enterprise, as you alluded to, including some things that accounting does not depict, and actually, accounting, by design sometimes, does not depict, including certain elements that are simply not recorded in the accounts, including future prospect of an enterprise, as distinguished from its past performance. This is where I would make the distinction.

MR. WHITE: Amen.

MR. KROEKER: Leslie?

MS. SEIDMAN: Thank you. This discussion about what level of diversity is acceptable versus unacceptable leads me to ask a question about the condorsement approach that is laid out in the progress report.

There clearly is laid out a role for the FASB in the various phases of moving through a condorsement approach, including the current convergence projects, the transition process, where we would go through the remaining differences in standards and application, and have a process for deciding how we are going to incorporate them into U.S. GAAP, and then the ongoing process for the development of new standards.

And so, that clearly does put a lot of responsibility in the FASB, and the role that we would play in making those judgements.

And the guiding principle laid out in the report is investor protection, which I clearly support. But I think I have heard you express some different views about what that might mean, whether we are talking about being in the same bowling alley or in the same lane. And some of the examples that Greg used, for example, were inventory, PP&E, R&D, or D, et cetera.

And so, I would like to get some discussion going about what investor protection means to you, because I think it will be the single most important area that would need development in formulating a robust process to work through all of the elements of it. And let me just give you some food for thought to do that.

If you take the insurance project that we are currently working on, which I know is near and dear to some of your hearts, and the fact that the boards' having gone through an extremely robust process, don't agree on a couple of central elements, using an investor protection hat, does anybody have specific suggestions, or can people articulate the criteria we would use to work that through?

In other words, how do we know what's in the best interest of U.S. investors, and when do we stop and put our pens down and say, "That's going to be an acceptable difference, but other cases we're going to say no, that's an unacceptable difference, just adopt IFRS?"

MR. KROEKER: Kevin?

MR. SPATARO: That's a good question.

(Laughter.)

MR. SPATARO: Surprised I'd want to answer that.

I would go back to the points that I made before, is that I would say that so long as -- and there has been a very robust discussion. I think that the dynamic has been influenced, in some part, because of the fact that the IASB worked on the project independently, you know, for nearly a decade. And it was really only in the last couple of years that the FASB got on board on that project. So, I think that that has its own unique dynamic that you don't see in other projects.

But I would go back to the processes that the FASB has in place that have led to -- what I would say, you know, very robust standards that have been developed over the years, and that is, you know, the interaction of investors, and that is continuous, and it is very transparent. And I would go back to the testing, and I would go back to the central questions of whether or not it is meeting those. Is the information meeting the needs of investors?

I think that the feedback that the U.S. has received from certain investors is that what's being proposed by the IASB does not meet our needs, and would have a negative impact. And I think that -- but those all need to be tested out. I think that the insurance contracts, that's one of the projects where, since we haven't had a final standard that -- and I shouldn't say a final standard -- we haven't had a standard that was comprehensive or complete enough so that it could be adequately tested, and then the results of those tests vetted, discussed in a very transparent manner.

I don't think that we have reached that part of the continuum where the FASB can say, "Well, you know what? We have enough information, and we can definitively say that the IASB's proposal is the -- you know, is the right one to back," or, alternatively, if the feedback that we're getting from some investors in the U.S. alternatively is the right approach, then this is one where, you know, both boards need to take a step back, sit down, and do more work.

But again, I think that we have a unique situation there, just because of all of the time and effort that the IASB put into their approach, and because of the lateness of the FASB getting into the project.

But having -- but let me also just say that, you know, for both boards, both the FASB and the IASB, you know, have both, you know, done great work and have put in a significant amount of effort and should both be commended for all the work that they have done. So I'm not -- my point was -- in making my comments I am not trying to minimize the work or efforts of either board.

MR. KROEKER: Mark, and then I think we are running close to the cut-off, so I would then see if we have any other questions from either Chairman Schapiro or Commissioner Walter or the staff.

MR. LAMONTE: Thanks, Jim. Leslie, to your point about, you know, what should the FASB be doing, and what differences are, you know, acceptable, I need to be able to compare Axa to Chartis. I need to be able to compare, you know, a U.S. company to their global peers.

And Neri introduce an interesting concept in some of his earlier remarks about carve-ins versus carve-outs. Carve-outs are not particularly helpful. Carve-ins can be very helpful.

I think the FASB still needs to have a robust infrastructure in place to solicit investor views in the U.S., understand why U.S. investor views may be different. And where you have differences like this on issues like the insurance accounting, or derivatives netting, maybe you have carve-ins, where the FASB is establishing some incremental disclosures or alternative presentations for U.S. reporters that give us a different lens to look at the information through, but we still make sure we adopt the standards in a way that allows those global comparisons to take place.

MR. KROEKER: Other questions? Maybe if panelists want, if you feel there is any remaining comments you haven't given, I will start reverse order, and let's try and keep it to 30 seconds to a minute, just give each panelist a final parting shot on anything you think that we ought to be aware of.

MS. O'MALLEY: I was just going to respond to a point that Neri made about the education issue. Certainly the experience to date in the Canadian transition has been very much what he alluded to.

I would also emphasize the incredible importance of industry groups, because a lot of the decisions on transition have been -- people have worked very hard together because of the desire for people to be comparable amongst the industries.

And so, I would give absolute top marks to our oil and gas guys, because they got off the mark early and wrote a huge piece of work helping people sort through what the questions were going to be in transitioning from Canadian GAAP to IFRS. And they spent an awful lot of time in their group including the major analysts who follow their companies, to make sure that the decisions were going to be well known to the analyst community, as well.

Other industries, like the banking industry have done major presentations, gotten all the analysts together that follow that -- that they know that follow the industry, and have explained the kinds of choices that the individual companies are going to be making.

So, it's -- and it has really just started getting into high gear as the transition approached, because they know that the analysts are still trying to figure out what's going on in the last year of Canadian reporting, and they started just before the first quarters were coming out. Some of them have been actually earlier on. Some of the industry, some of the companies, have actually had boot camps for the analysts that follow them. And it has worked very, very well.

But it is really -- one of the CFOs said, you know, "This is part of my job, because if something happens to our stock price because I didn't explain this properly to my analysts, I am going to wear it." So, most of the senior people have taken this very seriously, in talking to the people that follow their companies.

MR. KROEKER: Gerry, and then we will just go down. Thirty seconds, sir.

MR. WHITE: Yes, I will just make two quick points. One, some of the questions were directed at, essentially, are investors prepared for this. And I guess my view is that knowledge of IFRS is very variable, and is -- and particularly among U.S. -- people who follow U.S. companies only, is broad, but not at all deep.

But, having said that, giving people another two years would not make any difference, because most analysts focus on accounting changes when they happen, not before.

Second point. An important issue here is transition. The staff paper talks about mainly prospective change, and that is, our surveys show, a clear second choice among investors, that it is much more helpful to have retrospective adoption. Thank you.

MR. KROEKER: Kevin?

MR. SPATARO: I would echo the same points as I have reiterated earlier: process, process, process.

I think that if IFRS is going to be successful, then it needs to have those competent processes, similar to those that have made the FASB the success that it is. And if it doesn't have those processes, and if it doesn't have the input of investors, and if it's not continuous, if it's not formal, if it's not absolutely transparent, then I think that we have an issue.

MR. KROEKER: Thank you. Mary?

MS. MORRIS: I think that investors are really -- will be ready to jump in full force -- specifically, what Gerry was saying -- when the decision is made. I think that, you know, we do need to identify that, and try to understand when that is going to happen.

You know, given that, though, I think that there are still some things that we want to make sure that we will look at, and you know, try to improve. I think that continuous standards are the most important factor.

MR. LARSEN: I think that the condorsement approach has a great deal of merit. I think that a strong and vibrant FASB has had a very significant positive impact on the development of IFRS. And if we move down some type of condorsement path, I think we need to be careful not to dilute FASB with a separate private company FASB board, and that a -- this knowledge of IFRS and the transition to IFRS, to some extent, is a little bit analogous to Y2K, when we were changing over from our old COBOL programming. It ended up not being that big of a deal, but we were all worried that it was going to be this huge thing, and a lot of work was done, and a lot of money was spent on consultants to get there.

That being said, it seemed to go very smoothly, and there weren't too many hiccups.

MR. KROEKER: Mark?

MR. LAMONTE: Thanks. I am just, you

know, grateful for the opportunity to be here today, and I encourage the Commission and the staff to continue working towards developing solutions that really facilitate the continued improvement to accounting standards around the world, and the participation of the U.S. in that important process.

MR. KROEKER: Thanks. Greg?

MR. JONAS: You know, U.S. investors are heavily exposed to IFRS today. They are going to be only more exposed as time goes on. We can only protect U.S. investors by bolstering IFRS, making it strong and vibrant, and bringing it into the U.S. in a logical way. And I am delighted to see the thoughtfulness of the Commission in thinking about ways to do that. I mentioned before I'm a -- personally, I'm a condorsement fan as a way to do that and hedge our risk in doing that, as well.

On the education front for investors, I agree with other comments, that investors will be ready for any thoughtful transition approach, and that the primary education vehicle for investors is going to be, to Neri's point, what companies say to investors as they prepare for transition, not only in the year of transition, but in the couple of years preceding that, so that investors can become ready. Thank you.

MR. KROEKER: Neri, the final word.

MR. BUKSPAN: Final words. So, probably on behalf of all our panelists, I want to thank you for convening this session.

But a few things. I think I will agree that investors are going to be ready. IFRS is already here for many other companies, so we ought to be ready, if we cover companies globally.

I think what -- the role for the Commission is to think about day one and day two. Day one is already today. And how we think about, you know, day two. And in the context of day two, I want to put two things on the table.

One is the conceptual framework which is key, also, to Leslie's point of how you make a decision and then the notion of the points of conceptual framework couldn't be underestimated, and it was actually echoed by the departing FASB chair, Bob Herz, and actually echoed by the investors advisory committee of both the FASB and the IASB -- and I'm a member of both -- including comprehensive disclosure framework.

And in this, the other role for the

Commission would be, notwithstanding the dialogue that was suggested here, I believe the Commission could promote the dialogue through thinking about what are the right disclosure for the period of transition, learning from the experiences in the EU and in Canada, and considering the cost benefit practicality issues of prospective versus retrospective. And I clearly agree that prospective would be -- retrospective will be the ideal notion.

One thing I didn't put on the table, and I want to -- maybe I am differing here from the other folks -- S&P does support an option. It is in our comment letter. We do support the option. We believe if it's already there, we do support the option. We are not necessarily thinking that it's only going to be an abusive option, and we are encouraging the Commission to think about this, as well. Thank you.

MR. KROEKER: Thank you very much to our panel. I should mention -- I failed to mention at the outset -- a few panelists have provided written statements to -- if those aren't already available on our website, they will. So members of the public, you will have access to those.

Let's convene now for a lunch break, and meet back promptly at 1:00.

(Whereupon, at 11:54 a.m., a luncheon recess was taken.)

A F T E R N O O N S E S S I O N

MR. KROEKER: Welcome back. I think we should go ahead and get started.

The next panel, we're going to focus on the issue of potential, and whether we should move forward with incorporation of IFRS. If so, best strategies, is it a good idea, et cetera.

Following on from -- I think we can build a lot on the discussion from this morning. But we want to hear from the perspective of smaller enterprises, including smaller companies and those who also play a role in providing assurance to medium and smaller-sized entities.

We have joining us on this panel, starting from my left: Daniel Beck, who is the controller of Bank of the West; Shannon Greene, chief financial officer with Tandy Leather Factory; David Grubb, who is a partner of professional standards with Plante & Moran; Charlie Roland, who is the chief financial officer of ViroPharma; Bill Yeates, partner and national director of auditing and accounting at Hein & Associates; and then Ron Zilkowski, chief financial officer of Cuisine Solutions.

And we could start -- let's start from the far end and go this way. If panelists would like to give any opening remarks, again, don't feel compelled. But if there is anything you want to just kind of start off the discussion with, we certainly want to give you that opportunity.

So, Ron, we will start with you.

PANEL TWO:

SMALLER PUBLIC COMPANIES

MR. ZILKOWSKI: Thank you, Commission members and observers. I appreciate the chance to be here, representing small filer registrants. I have been filing SEC reports since 1994 as a small, $10 million company that did an $8 million IPO, and have seen the growth of several small companies and am part of one that went private.

During this time, I have experienced the evolution of the SEC and the public auditing firms during the implementation of PCAOB and Sarbanes-Oxley. While I do support the implementation of one set of accounting rules for worldwide consistency and reporting, I do so understanding there will be a lot of pain.

I think I speak for all small companies in saying that what we need is an implementation help, realistic dates, and minimal penalties.

I remember vividly the first meeting with our new consultants on how we were going to implement Sarbanes-Oxley. Our first consulting contract capped the initial fees at $150,000. But it was apparent we were learning, as the consultants learned, and we went through this quickly. Time tables for small businesses kept getting delayed, but not with a lot of notice. And it took over three years from the start to when the deadline finally hit.

During this entire time we continued to spend money and learn the process. I transitioned to another firm who was later bought, and then another who had not yet implemented. By then, the cost of implementation had gone down dramatically. Our consultant cost $5,000. Since the body of information was now disseminated, the process was structured and the end result was clear.

My concern with implementation of IFRS is something similar will happen if the mandate is too soon for small companies. Big companies are still trying to figure it out. And small companies, without those same resources, are still trying to find a proper seminar just to learn the nomenclature of IFRS, before understanding how it changes their business.

There are simply not enough resources at a fair price to implement this change yet. It even cost me $850 a year just to gain access to the FASB website now, and they have no road map to convergence of IFRS at this time.

I also remember the upheaval of accountants and companies when PCAOB started reviewing auditor files and finding inappropriate application of or interpretation of arcane accounting standards. Controllers were fired and demoted for accounting expertise, and no accounting firm wanted to be seen as weak in their accounting standards.

Now what, with IFRS? As we transition and file new accounting reports, will we be held to interpretations of the new rules, possibly resulting in weak controls, due to our limited understanding? We are not allowed to ask our accounting firm for guidance or interpretations. We must justify it for them.

As we transition, this needs to be a learning experience for all of us. In the end, the world benefits, but us small companies need patience and practical guidance at a reasonable price. Thank you.

MR. KROEKER: Ron, thank you. Bill?

MR. YEATES: I did not prepare opening remarks, but I would like to give you a little bit of background.

First, I appreciate the opportunity to be here with -- by the Commission.

Hein is a regional firm. We have offices in Denver, Houston, Dallas, and southern California. We have about 50 SEC public registrants. We have a handful of Canadian registrants. And we have worked with the aim -- obviously, being in Houston, Dallas, and Denver, we have a high concentration of energy and mining clients, so we have somewhat of maybe a different perspective. But also we have manufacturing and software and communication clients.

For four years I had the privilege of working with Leslie on the FASAC, and during that period we had, obviously, several robust discussions with regards to convergence, endorsements, and I'm sure now they're talking about co-endorsements.

I have also been formerly a member of the Professional Practice Executive Committee of the Center for Audit Quality and all its predecessors.

And I can candidly say we, as a firm -- and I think most of our clients -- support one set of high-quality standards. However, we appreciate that the devil is in the details.

And I would like to commend the Commission in their rather robust analysis in their October work plan. I think you're asking the right questions. I can speak for myself. I was also pretty impressed by the co-endorsement approach taken in your May, and I look forward to the discussion. And thank you, again, for letting me be here.

MR. KROEKER: Thank you. Go ahead.

MR. ROWLAND: Thanks, Jim. You know, I would like to thank the Commission and Jim, yourself, for inviting me here to participate in this.

From our perspective -- I work for a biotech company, primarily based in the U.S., but now with a footprint in Europe. And while personally I endorse one set of global standards, given certain caveats of consistent interpretation and consistent enforcement, when I look at it from a selfish corporate perspective of where I sit as the CFO, there is really not a benefit to us to switch.

There is a lot of cost to switch. It doesn't improve my access to capital. It doesn't make my reporting systems any simpler. You know, right now I have two sets of books in every country. GAAP is the primary financial reporting set, and then I've got statutory books in every location. If I switch to IFRS, I have financial reporting based on IFRS as one set of books, and then I've got statutory reporting as a separate set of books in every country.

So, from an internal corporate perspective, there is no efficiency, there is no cost savings, or what have you. However, from a comparability standpoint, you know, we do get benchmarked against European-based companies, you know, Japanese-based companies, what have you. It would improve comparability.

But again, when you start looking at analyst models and things like that, they take all of the things that are unique to GAAP, or unique to IFRS, that are different, sort of out -- they have very simplistic models, really trying to estimate cash flows to come up with valuations. So net-net, is there really a difference when they start sort of benchmarking things?

Now, when you start getting to the banks, when you're going to lend money -- you know, try to lend money and stuff, there they really do go through the GAAP or IFRS standards. They understand it, and what have you.

So, while I think this is something long-term is a very good goal, and would be good for the overall capital markets, from a selfish corporate perspective, being based here in the U.S., there is not a lot of short-term or mid-term benefit that we would realize.

MR. KROEKER: Charlie, thank you. David?

MR. GRUBB: Good afternoon. My name is David Grubb with Plante & Moran, also providing an auditor viewpoint. We are also a regional firm located in the Midwest. I'm from the Detroit area.

So, I would like to thank the Commission and the staff for an invitation to participate in this today. We feel honored that we get to provide our views here.

A few overall comments. First off, our -- me, personally, and as a firm, we support the goal of a single set of globally-accepted, high-quality accounting standards, and we also appreciate the work that the Commission has done. They have been very diligent in studying this issue, and we think that they are taking the right approach to this. But we do support that overall goal.

There are a few threats to that goal that I perceive, and many of these were talked about in the first panel this morning. First off, to the extent that there are national carve-outs or carve-ins, or really, anything that causes significant deviation from the standards as issued by the IASB on a national basis, we acknowledge that, for local laws or business customs, that sometimes these things are going to have to be in place.

But we believe that there needs to be some limitation placed on that. And that is going to require, really, an effort and a commitment on all parties to do so. But we think that that will help mitigate that potential threat.

A second potential threat is auditor

interpretation. And that was also discussed in this morning's panel. But as a practitioner who has worked with IFRS, auditing financial statements prepared in accordance with IFRS, I know first hand how auditor interpretation comes into play, especially when dealing with a principles-based set of standards -- or, I should say, more principles-based set of standards, like IFRS.

What I typically advise my clients that are considering IFRS is they need to understand that it's a different mind set, a different way of doing things than we've traditionally done in the U.S., and it's much more complex. It requires more thinking, more judgement, more planning. And my recommendation is get ready to write a lot of memos.

But that is -- but to the extent that auditor interpretations start to cause deviations, I think that is going to be a potential threat.

Clearly, as you look at smaller public companies, they have fewer incentives, at least in the short term, to adopt IFRS. And there was a comment just made that, you know, from a very selfish perspective, it increases costs. And I don't think that can be downplayed at all.

However, I do think we need to try and balance all this in terms of the larger goal of what's in the best interest of capital markets and the economy. And I think that goal of having a single set of standards is still the right one, but we need to balance it out with these others.

And finally -- and we will talk quite a bit about this, I'm sure, in terms of the approach to implementing IFRS -- but I have concerns about any sort of model that prolongs an implementation over an extended period of time. Some of this is coming from my own experience in helping companies adopt IFRS, especially smaller companies, where many times there are significant benefits to just getting it done, getting it done once.

I do know that there are costs associated with that. There are clearly different cost benefit situations that need to be considered. But when you consider the distraction that a prolonged implementation can cause, the resource constraints it can create, it causes staff to really spend less time on the core business purpose and more time on an actual implementation.

And also, I think, very importantly, we want to think about the financial statement user.

So an extended period of implementation will create challenges for financial statement users and investors. And so we need to keep that in mind. Thank you.

MR. KROEKER: Thank you. Shannon?

MS. GREENE: I'm Shannon Greene with Tandy Leather Factory. We are headquartered in Forth Worth, Texas. I am very pleased to be here, and appreciate the Commission's invitation.

I don't have much more to add that Charlie didn't already say. I don't -- from a selfish standpoint, from our company's perspective, I see absolutely no benefit to IFRS at all. All it is going to do is cost us money.

We are predominantly based in the U.S. We do have operations in Canada and the UK, and we have aspirations to further expand internationally. But I don't think -- I think it's just going to be painful for a small company, for our company.

And, beyond what Charlie said, we don't -- for comparability purposes, we don't really have any competitors. And so I don't even get the benefit of my financial statements would be comparable to somebody else's financial statements for investment purposes, for banking purposes, for capital market purposes, et cetera. I don't even have that.

So it is no benefit, it is only cost. It will mean I will either need to hire consultants or staff, or whatever. And any time you ask us to spend money that doesn't help us sell more product, you know, you get a lot of flack from the senior management team. We do that a lot. We are doing that with XBRL, we did it with Sarbanes-Oxley. It just -- I don't have anything really positive to say, as far as IFRS, strictly from our company's perspective.

Now, personally, I totally get it. One set of standards would be fabulous. It makes sense. I just can't see how to get from where we are to where we want to be without small businesses -- without my company spending an awful lot of money. It's going to blow our estimates and all that, so -- which, the trickle-down theory with all of that is extremely painful.

MR. KROEKER: Thank you. And Daniel?

MR. BECK: Mr. Kroeker, commissioners, and members of the SEC staff, thank you for inviting me here to discuss this important topic with you. My name is Dan Beck, and I am the corporate controller of Bank of the West, a large, diversified financial services company in the western United States. We are primarily a non-public company. We are 100 percent owned by BNP Paribas, which is one of the top 10 largest global financial institutions. Our broker-dealer, though, is registered with the SEC.

What I hope to bring to the discussion today is relevant experience from a firm that has dual reporting in both U.S. GAAP and IFRS. And, as a result of that dual reporting, we are uniquely positioned to advocate for one set of globally acceptable accounting standards. Through our experience, I hope to clarify the business and the accounting challenges of operating under two sets of standards.

I think, as we talked in the panel this morning, we have had some discussions today the fact that there are multiple standards and not one consistent set of standards to operate on makes comparability in industries like financial services and banking more difficult.

I also hope that, through this discussion today, we will be able to influence you to set a clear path forward towards adoption and convergence, as would be of best use to your constituents. At that point we can begin the body of work -- that is the other thing that we have been talking about in this panel today, is that once a clear path is set, there will be a significant body of work that needs to be done, in order to move towards an IFRS adoption.

And with that, I thank you very much again for inviting me, and look forward to the discussion.

MR. KROEKER: Thanks. I think it might make sense to start the same place we did with the last panel. And we have heard from a number of you about is transition or an incorporation of IFRS a good idea or not, but if there is more to be said on that, are there impediments that we want to get a little bit more granular about?

Obviously, the last panel, we talked about the governance and funding, and a number of other issues. But are there issues that we should really drill down? I would love to talk more about the cost of transitions.

So I would really start with the big question of is it a good idea, is it a bad idea, is it more nuanced than that? And, like the last panel, I don't think people will be bashful. And, in fact, we see that already. Go ahead.

MR. ROWLAND: So, Jim, I think that's really sort of the crux to the issue when you get to the smaller companies, is, you know, there is a number of ways you can go. You can do it all at once, sort of the big bang type of theory, or do you do this sort of -- "death by increments" is the way I have sort of -- my staff describe it to me.

You know, we're operating both in the U.S. and Europe, and I have got 22 financial people. So it's not a very big staff. So what do I see happening as we switch from, you know, one set of standards to another set is I can't staff up because I will be letting people go once we're done doing all of the work. So I've got to bring consultants in. So, if everyone is doing it at the same time, are there going to be enough consultants out there for all of us to actually get through this?

I am going to incur greater audit fees. And if you do it -- and I prefer the big bang theory, because it's one thing to sit in front of your staff and say, "For the next six months or nine months we're going to go through hell to redo our numbers, restate everything, get it all into the new standards," that's one thing.

But if I tell them we're doing it for four years, I'm going to have people burn out. I'll have people go, you know, find another profession, you know, because it's not like you can go to another company, everybody going through the same issues. So, I don't think it's actually fair to all the accountants and finance people out there to sort of do it death by increments over a period of time.

So, there are really the concerns that I hear when I talk to my controllers, you know, around the various entities, and my external reporting guys, is just the time, the effort. We don't have the staff. And how do you do this, when everyone else is going to be competing for the same consulting resources?

MR. KROEKER: Bill, it looked like you and --

MR. YEATES: Yes. I think -- I've discussed this with my clients, and I think they have a little different perspective. We have heard it as kind of the death by 1,000 cuts. And I can understand that, and that's tough.

But when I was reading the co-endorsement approach, you know, that kind of made sense to me. I think most of my clients feel the same way as Shannon does. They don't see much benefit in IFRS to them. And call it, you know, human nature, but I really look at it as more of a capital restraint. They are not going to do it until they are forced to, but on a co-endorsement approach, you know, you're kind of phasing in like you're doing normal changes as you're coming along.

And you know, again, in energy particularly, the differences between IFRS or -- and U.S. GAAP are extremely significant with regards to restatement of property costs. And it's going to be a major, major overhaul. And most companies look at it and say, "Well, you know, what is the benefit? Companies measure us by our reserves, not by necessarily our capital assets," taking away the fact of maybe finding cost as an important financial metric.

So, I would prefer a slower approach, also from the standpoint that I'm not -- you know, I think there is a lot of risk right now with IFRS, from a governance standpoint and from a funding standpoint, an independence standpoint, and seeing what's happened -- is happening. You know, to jump over any time soon, I think, would be a total mistake.

MR. KROEKER: Others on the panel?

(No response.)

MR. KROEKER: We could jump a little bit into how your -- what type of mechanism -- are you accessing public capital? Are you accessing bank debt? Do your financials matter for both public and private reporting purposes? Really, with the perspective of is this something your investors are asking you for, or is this something you think would be beneficial in capital raising?

Again, I think we heard a little of that in the opening statements, but really looking for: is this something that people are asking for?

MR. ZILKOWSKI: Jim, we have not had a huge request for this. We do have one stockholder that uses IFRS, is familiar with IFRS. And when we benchmark us against European food companies, you know, there is a difficulty trying to understand the difference between the two.

You know, our banks, though, are looking at this solely from a cash flow perspective. They really don't care about what the accounting is, they want to know what the differences are between what we would have booked versus what we did book, and what the cash impact was on that aspect.

MR. NALLENGARA: Charlie, you had mentioned that you have competitors that are IFRS. And I was wondering. Do you see analysts having difficulty, or any challenges with comparing your company with the IFRS? Do you see inaccuracies in any of their presentations, when they are looking at your industry?

MR. ROWLAND: No. And I think, if you were here for the previous panel, as Yuri (sic) that was talking about, you know, they really focus on the cash flow.

So, what -- you know, what the analysts are doing, they are taking data that is not even in our financials. So, you know, I am in a data-rich environment in pharmaceuticals. So you have things like prescription trends, and they will go out and do their own primary market research, and talk to doctors about what their prescribing is going to be on a new product launch, or how things are going, are they going to -- you know, new indications coming out, is it going to change behavior.

Well, none of that is in the financials, but that is really what drives the forecasts that are in their numbers. And, again, they are chasing cash flow and trying to come back with sort of what's the overall value of the enterprise, and coming up with an opinion on is this something we should be investing in or not.

And so, really have not had difficulty dealing with analysts when there is a company on IFRS versus a company on GAAP that is in their portfolio. They have normalized all of that.

MR. GRUBB: Yes, I would echo that. In my experience -- and much of my experience is going to be with private investors, private equity, private debt, or banks, but they -- these investors tend not to care so much whether the financial statements are IFRS or U.S. GAAP. You know, they focus much more on are they audited, is there a clean opinion.

And I think it's for that same reason that they are making the adjustments that they need to make to get down to the information that is relevant. And most likely that's cash flow.

And now, one of my concerns is that somebody is willing to accept IFRS or U.S. GAAP, really, without any hesitation whatsoever. They may not understand the difference. These individuals may be misconstrued to think that whether substantially similar, I can take one, interchange it with the other.

I don't know how much truth there is to that, but I suspect that's the case, because I have been involved with clients that have gone to their primary lenders, you know, they have contemplated switching to IFRS, or they have been acquired by a foreign company, let's say, and they have been mandated to change to IFRS, and the discussion is, "Okay, you're going to be getting new financial information, we're changing our framework." And there is very, very few questions that are ultimately asked about that.

So, I do think that that is a -- there is a core misunderstanding of -- that there are differences between the two reporting frameworks.

MR. YEATES: In our experience with our public clients, the accounting standards has never even entered into the conversation as to being a barrier to entry into the markets.

You know, the biggest considerations for our clients have been anticipated ease of access to capital, and where the underwriter has their focus. In some instances, such a mining, obviously, Toronto is a major center. And that may be a consideration.

And we have also heard lower regulatory costs, but I think that is just, you know, just talk, because in the end almost all of our Canadian companies that have gone public in Canada have migrated back to the United States. The cost of a dual listing is burdensome, and there is larger markets, and the market makers are here.

But never have I ever had -- even -- many of our clients have European and Asian investors, significant investors by those parties. And, again, they may have a level of sophistication greater than the normal investor on the street, but I have never heard a consideration that IFRS would make a difference.

MR. KROEKER: But from that perspective, wouldn't -- impact cost of capital wouldn't reduce or increase --

MR. YEATES: None, none, none. No impact for our clients.

MR. KROEKER: Maybe drilling down -- and I think it's a good point to start to talk a little bit about cost in opening remarks, and I'm glad to hear not just from the perspective of the markets as a whole, but particularly from the individual company perspective. So Charlie and Shannon, in particular, thank you very much. You don't feel like you need to support the idea if you, as an individual or as a company, say, "Look, it doesn't benefit me," that's what we really do want to hear, as well as the market view.

But getting our arms around cost, any advice on -- have you done any work, I guess as a panel -- is there analysis we should be looking to? How can we gauge the cost? Are there ways to reduce or mitigate cost? We talked, again, a little bit about big bang versus over time. But I think drilling down on -- as specific as we can, in terms of the staff, getting information about the cost and the impact would be very helpful.

MR. ROWLAND: I'll go first. I won't be shy. The hard part on estimating the cost is the devil is in the detail. So, until all of the standards are set, or at least getting close to being set, and there is not a lot of variability left in them, it is very hard to sort of estimate what the cost is going to be, because I can't sort of tell how big is the magnitude of restatements, do I have the data or not, do I have to change my systems, do I have to capture data differently that I wasn't capturing before, so I've got to -- you know, is the software vendor even going to be able to patch the software? Do I have to do it manually for a period of time? You know, and if you're on something like SAP, you know, that could be a nightmare.

So, you know, once you get that thing set up and running, it runs like clockwork. But if you want to change it, you know, it could be a major deal.

So, until you know those things, it's really hard to do a good cost estimate. And then, the problem that I think you heard from Shannon and myself is that, you know, we don't have a lot of money. You know, and going into the management team and to the board to say, "Hey, I want to spend money just to come up with a what-if on what this is going to cost," while it's still moving, and then you've got to do it over again, you know, is just not, you know, something that is viable.

So, we really need things to sort of settle down, stop moving, and then we can actually come up with what realistic time tables and estimates for adoption would be.

COMMISSIONER WALTER: Can I ask -- bring you back to the earlier question, and just ask a clarifying question about this big bang versus gradual, or over a period of time? I am not sure I'm understanding how you're characterizing the opposite of big bang. Are we talking about something where there would be sort of gradual? Are you talking about the condorsement approach? Or are you talking about something else?

I mean I would assume that -- would it be -- would it satisfy everybody's needs if we set an outside date? Say we decided we wanted to go ahead and, for better or for worse, and we set an outside date, but we left it up to companies, within that interim period of time, to decide how they wanted to implement. We would provide some flexibility. Would that be something that would be preferable?

Or, is the notion that there would still be -- I think, under the condorsement approach, we felt it would be more like changes that are being made to GAAP, which, of course, one would expect in any event.

So, I just wanted a little bit more clarification about that.

MR. ZILKOWSKI: I like the idea of condorsement. But the question is, when is it going to be done? And I think when you set a date, I would like it to be a date that says, "Okay, this is the date," not the date that's going to change because the FASB hasn't fully brought over their standards.

And that is the fear, is that it is not going to be done, it is going to continue to drag on and on and on, and we've got to keep continually learning and updating and manually adjusting everything.

MR. ROWLAND: And I think, as a follow-up to that, you know, whether it's condorsement or some flavor thereof, the concern is, is it going to continually keep changing, and then I've got to keep going back and redoing things I've already done?

Or, I think we sort of liked the -- it doesn't actually have to be a big bang. There could be a phase-in period, like you have this two-year period to -- and this is the end date, at the end of this two years. But if you want to adopt earlier, you can. But at the end of this time frame you need to be on board.

I think that is something that is probably reasonable, given the fact that different companies are going to be affected significantly differently on this. Because, depending on exactly where the standards fall out, you know, you could have companies and industries where they've got to go back and renegotiate every contract, or they may have to revalue all their assets, or their leases, or what have you, and then other companies where, you know, "Okay, I've got one lease." You know, it's not a big deal, I can just make the change tomorrow.

So, I think there has to be some flexibility on that. Because if you set the date too soon, and it's a drop dead date, there are going to be people who just can't get there without creating a mess.

MR. YEATES: I would just like to add to that. You know, I think people won't do this until you really have kind of a date certain. But I also believe it is too early. There is too many uncertainties, there are too many risks to set -- by the end of this year, to push us in a corner and say, "We have to set a date of X" -- you know, of X date.

I mean we've already seen -- I think it's lease accounting revenues going back out for, you know, re-review. This is going to take some time. And you know, I can't see anything that is to gain by -- other than maybe some politics in there, of the two boards working together, which, you know, I know is difficult.

But I think if we are committed over time to get there, let's not rush into this and make a mistake. The risks are too great.

MS. LUISI: I just have a question about what you see the end product as. We were talking about a big bang. Are you seeing a big bang to IFRS as written by the IASB? Are you seeing what might be adopted at that big bang date as something more envisioned by the condorsement paper, where the FASB has methodically gone through all of the standards, and incorporated IFRS into U.S. GAAP?

MR. ROWLAND: All right, I'll go first again. I guess, from my perspective, I would like there to have been a comprehensive review, so we know where do we stand. You know, and if that means we have to wait for, you know, you guys to finish your review of IFRS and hammering out with them where we can get agreement or not, that makes more sense to me than to rush in and say, "Well, we're going to take IFRS exactly as it is today, and then we're going to spend the next two years of hashing it out and making changes."

So, you know, my thing with sort of a big bang is that you have hashed it out, you're down to, okay, this is it, we agree or we don't agree, but here is the final standards.

MS. LUISI: So maybe a process similar to what's in the condorsement paper, but rather than a requirement that companies adopt as the agreements are come to, that there wouldn't be a requirement to adopt until the end product?

MR. ROWLAND: Correct. Because I think you will have some companies that it's going to be more cost-effective -- especially the smaller you are -- to do the adoption when everything has stopped moving.

MS. LUISI: Now, what do you feel about an option for some companies who want to go along with the board's --

MR. ROWLAND: I think that's fine, because, you know, one of the other panel members was complaining he's got to do both IFRS and GAAP books right now.

So, in companies that are already having to do that because of the overseas affiliate, or what have you, you know, I think that makes sense. Because, for them, they are actually going to get savings. And so they can actually justify some of the incremental costs. And, in the end, even if they have to tweak things over time, it's still probably more cost effective and more streamlined than what they are doing today.

MR. KROEKER: Tricia, then Shannon.

MS. O'MALLEY: Yes, a couple of observations. I think if you want -- I was saying this morning you may want to get an idea of the cost question from talking to the smaller Canadian public companies, because that ought to give you a reasonably good feel, and because we have done the big bang while things are still moving. They are going to do another wave when all the MOU projects are finished.

I can't say that I think any of them are particularly happy about that, but I think the other important thing that people need to recognize is if you actually are going to do it, there will never be a good time, because it's not going to stop moving. And the panel this morning pointed out the large number of projects that are still on both boards' agendas that are needed improvements to GAAP. So, at one point or another, you just have to pick a date and do it.

I think one of the things that we have said to the accountants in Canada that have been working on the convergence teams, and in particular are students who got kind of stuck in the middle of learning one set of standards and then before they graduated got into another, we pointed out -- we have pointed out to them the fact that if the U.S. makes the change, that they will have huge job opportunities.

(Laughter.)

MS. O'MALLEY: There is a whole ton of trained people. We imported people from all over Europe and Australia. You will have them to draw on, as well as all of the people in Canada. And I guess that we have kind of been a test bed for some of those systems changes, and whatever.

I think you are absolutely right, though, that the issues differ by industry. And so, for some industries, there is not much difference. For some industries, there is big differences, but in narrow areas. And certainly our industry associations have been a huge amount of help to, particularly, the smaller companies, because they would get together and talk about the issues and whatever.

So, I think that it is not -- change is never pleasant, but it is perhaps worse in the anticipation than in the doing, in some respects. And I think there -- a lot of learning has taken place already that will be transferable.

MR. KROEKER: Shannon, then David, then Dan.

MS. GREENE: Yes, I just wanted to make the point that, as far as when the deadline -- whether it's big bang and it all goes into effect at the same time, or what have you, the reality with small companies is we fight the fires that are closest to us. And so, even if you set a 2015 deadline, I'm not going to work on it until the deadline is almost on me, because I just can't. I don't have the staff. I've got one other person in my company that works with me on standards and all of that, and that is, you know, just where we are.

So, the idea of adopting slowly, kind of like what we're doing now -- FASB comes out with new pronouncements all the time, new policies -- we make those changes as they apply to our company. I can handle that one at a time, you know. A couple come out a year. I can deal with that. If I have got a whole system conversion to do, you're talking -- for me, you're talking about hiring -- I don't know what consultants: systems, IT, accounting people, what have you, you know, it's -- but as far as trying to think that you'll minimize the impact to smaller companies by pushing the deadline farther out there, all that does is buy me some more time to handle the alligators I am dealing with right now, until I get closer to that -- sorry.

(Laughter.)

MS. GREENE: Until I get closer to that deadline. When it becomes a hard deadline, we will step up and deal with it. But it is going to cost us a chunk of money, because I couldn't plan for it.

The other point I wanted to make was that there was a comment made this morning about companies educating and beginning to talk to their users -- I think the reference was -- several years ahead of what changes are coming. That, again, for small companies, is not going to happen. I don't have the luxury of sitting here now and saying, "In 2015, if this is -- these are the rules that are coming, this is what our statements are going to look like, this is what our company is going to look like." Absolutely impossible. I can't think that far ahead.

MR. GRUBB: I have a couple comments on a few things we've touched on here.

First off, with respect to costs, and understanding what those are, I'm sure the Commission has done some outreach to companies in the European Union and Canada, but I think that would be very valuable. As an auditing firm, we have reached out with firms that we work with throughout the European Union and Canada as we got deeper into helping our clients adopt IFRS, and then also auditing financial statements. And we learned immeasurably from them. They have learned lessons that they were able to pass on to us. A lot of them we have put into place.

A few of the same mistakes we have made, but I think that's -- we've got great resources. And especially now, with Canada having gone through the process, I think we will have some good empirical data to tap into.

On Commissioner Walter's question on the big bang and the, you know -- is that an option within the condorsement approach, and I think it can be. As I mentioned earlier, I think I'd be an advocate of -- especially for smaller companies -- to have an option, at least, to try and do it all at once. And I would be very supportive of that being with an overall condorsement approach.

I don't know that I would necessarily limit it to the end. I think if you had an option that allowed you to do it at some point in there, I wouldn't be surprised if some companies may want to do it sooner if it made more sense for them, if they had the resources or had the opportunity, and it fit at a different point in time. I've seen that make sense.

So, I think the more options we have, the more flexibility, I think would benefit all of us.

COMMISSIONER WALTER: I think I know the answer to this question from things you said earlier, but one potential downside of allowing for a period of years and saying, "You can adopt at any point during this period of years" is, to the extent you have a set of competitors, and the financial statements are not comparable, how much of a difficulty would that create?

And say, for example, there are, you know, five competitors, and each one picks a different year into which to make the shift. Do you view that as being problematic for you? And, if so, is it outweighed by the flexibility it provides?

MR. YEATES: You know, it may sound a little bit counter-intuitive to the American system. I mean you would think to have the option, and let the free enterprise system kind of decide which is the better system would be the way to go.

But I and people in my firm, and clients we have talked to, are really opposed to the option of doing it. We think it will cause more confusion to, one, the users of the financial statements -- banks and lenders.

Candidly, selfishly, for a firm our size, even though we are a little larger, and do a rather large number -- relative large number -- of public companies, we don't have the resources to train people under two standards. It is hard enough for us under one standard. I mean, and you know, we kind of consider ourselves the experts, with regards to standards. And, you know, if we don't get it all, I mean, how can we expect our clients to get it all, or the lenders, or whatever.

And then we look at, you know, people out in industry, the controllers, the CFOs, the accountants. You know, changing jobs, moving from one company that may use IFRS to another -- or one company that may use GAAP and go to IFRS, and they may have a limited knowledge of IFRS, but they may kind of build up their resume to look stronger, we think that there is potential for errors occurring, getting the wrong people in the wrong positions with the wrong backgrounds.

We would like to see a little bit more of the little bang approach, you know, kind of -- you know, getting there over time, letting the problems with regards to IFRS work out together, with regards to structural issues, and hopefully getting down to the -- you know, it was -- I think, you know, that was kind of the intent to have these big major issues focused on. And then, by the time we get through these 11 standards, there would be, you know, small issues left. Well, I don't see it that way.

There are still a lot of big issues left after we get through these 11 standards. And it is tough enough right now to get through those standards. But let's get through that, let's take out the next chunk.

And then, I am hopeful, after that, you know, that there will be -- you know, the structural issues will be resolved, the governance issues will be resolved, the carve-outs, carve-ins, we will have a better understanding of those issues. And then we can move.

MR. GRUBB: Just in response to that question, so to have multiple options to do a one-time approach within a condorsement model, there very clearly are drawbacks to that, and you have identified probably the most significant one, which is a lack of comparability.

But when I look at the condorsement model in its totality, I -- we are going to have a period of lack of comparability, whether you are looking at companies within the U.S. compared with those outside the U.S. that are currently following IFRS, you are going to have that, necessarily. And you know, I am willing to keep an open mind that -- whatever makes the most sense.

We have got very diverse companies in the U.S. that are going to be complying with these requirements, from some very small $10 million, $20 million companies, up to, you know, the largest of the Fortune 500. So, to try and come up with an approach that balances everybody's needs is going to be challenging. And there is going to be playoff between the cost and benefits.

But, in my mind, and in my experience working with companies, I think the more options we have, the better, but acknowledging that there is a price we pay for that.

MR. NALLENGARA: We should let Daniel get in. You probably have some useful experience from having to take your company into --

MR. BECK: So what I was going to add to this whole conversation, first off, I think the most important thing is having a certain approach. What is going to change, and when, and at least getting an understanding of that. Because until -- and several members of the panel have said this -- until you know that, you can't resource for the changes that are necessary. And in financial services, in particular, there are some significant changes that occur between GAAP and IFRS.

As it relates to the other questions about an early adoption, obviously in the situation that I am in, I would prefer early adoption. But, ultimately, we have to take into consideration that there are still regulatory hurdles and other reporting hurdles where U.S. GAAP is still the basis for reporting.

So, some of those savings that I would -- and other companies in -- like situated companies would -- have wouldn't necessarily be recognized all at once. So that's another thing that needs to be considered as these options are out there.

But I'm an advocate for allowing companies to adopt early, as I do think that there are some savings that can be recognized by folks that file in both GAAP and IFRS.

MR. NALLENGARA: What has been your experience, taking -- I presume you moved Bank of West to --

MR. BECK: Yes.

MR. NALLENGARA: What was that --

MR. BECK: It's -- so our systems -- we haven't taken our systems completely to IFRS. So right now it's an on-top type of adjustment, where we're making the required adjustments to file in IFRS. So we haven't gone through the complete systems conversion, which is where I think the panel is really thinking the largest amount of work is going to occur.

So, that is the piece that, ultimately, I would like to get to, is to be able to say, "Okay, I now no longer have to have this second infrastructure sitting on top of my GAAP accounting results." I would like to be able to just have my systems report in this new accounting standard.

But even with that on-top infrastructure, the cost is fairly significant. I would say that 25 percent of the cost of the finance department is related to doing that GAAP to IFRS conversion, as well as dealing with the thing that I think is really important, the management accounting issues associated with it, trying to understand what a transaction is going to look like in both GAAP and IFRS, and be able to challenge our managers to make the best decision with sometimes disparate outcomes.

So that is one of the things that we have to deal with on a regular basis.

MS. SEIDMAN: Tricia made a point before that was intriguing to me, and I wanted to follow up on it. She was saying that she's got all these trained accountants up in Canada now who would be available to come down and assist in our transition.

But it occurs to me that's only true if we adopt as-is. And the proposal that is in the progress report puts forward a different idea, which would be for the FASB to methodically go through the remaining differences, which -- I think it was Bill made the point -- there are some that people think are pretty significant.

So, I would be interested in the views of this panel about how you think we, as a country, should go about looking at those differences? And to the extent that there is a critical evaluation of the differences, do you see yourselves as active participants in that process?

Because I hear people talking about the MOU projects, there -- you know, the 11 biggies, and you know, the thought that there might be another wave of standard-setting going on to address the remaining differences. I am curious what your thoughts are about that aspect of the idea relating to condorsement.

MR. ZILKOWSKI: I think, from our perspective, you know, we are a small company. It's very hard for us to even get our word out. I am happy that we are able to do it in a panel like this. But, you know, in a rule-making body, I think it would be particularly hard to bring out any nuances that would be helpful to us or such, you know.

MR. ROWLAND: Yes, and as a follow-on from our perspective, I think I'm in the same boat as Shannon. I have one person who does all the external reporting, writes up all the opinion papers on accounting and so forth for our auditors. And if I went to him and said we're going to start commenting on every exposure draft that came out, he might go off the roof. So I don't really want to drive him off there, because he's actually really good at what he does.

So, where we do -- we do keep track of what's going on. You know, we -- you know, the summary is coming out from the audit firms, and we read all of the audit firms' summaries coming out, so, you know, they all have a different take sometimes when they're in draft mode.

And then, what we do do is, if we feel strongly about something that -- we think that it's headed in the wrong direction, or we're concerned about something, we do comment through an organization like FEI, so that they take our comments into play. Because we still just don't have the time to go and come back with a robust response. So we will send in particular comments to FEI, and then they incorporate that into their overall response.

MR. KROEKER: One other issue as it relates to cost, and I know, Dan, you brought this up in terms of even if there were some, whether it's through endorsement or, you know, date certain, big bang adoption, there could be other requirements for which you would still have to produce sets of financial statements under existing U.S. GAAP, or you know, it might be regulatory purposes.

I am just wondering, from the panel's perspective, are there other requirements that you have in place, whether it's a business combination and some type of contingent consideration agreement that says you'll pay consideration based on U.S. GAAP results, or whether you have compensation arrangements, or lease terms, or debt agreements that tie you to reporting under a U.S. GAAP framework, and is that something that would then require you to do basically multiple sets of accounting, and whether that is pervasive at the smaller company level.

MR. GRUBB: One very pervasive issue that I think is often overlooked is tax reporting. There is actually, I think, quite a bit of diversity in thought over if a company adopts IFRS, what does that mean in terms of their -- the original basis that they use to then modify through schedule adjustments to get to their taxable income.

Some companies have taken the position that if IFRS is now my -- that's my financial statement, that's my books, I can start with that. Others have advocated that, well, there is still an obligation to go back and adjust to U.S. GAAP before you then make further adjustments.

And in some instances, the answer doesn't matter because something is specified in the Internal Revenue Code. But there are many things in the tax code that are not clearly specified that many times just default to U.S. GAAP. And so there is, again, a lot of diversity in thought. There is diversity within our own firm over how we do this, and our clients take multiple positions on this.

But I think that's an area that really needs to be evaluated, and is obviously going to require some input from the Internal Revenue Service on how they view this. But that's an area that, if there is a viewpoint that U.S. GAAP still needs to be maintained to some extent for tax purposes -- and it may be limited, it may be more pervasive, depending on the organization, the types of activities they have -- but I think that's a very significant one that needs to be thought about.

MR. KROEKER: Thanks for raising that. That's obviously something on our list, to make sure we're talking to other regulators, including the IRS. But very helpful.

MR. ROWLAND: So, Jim, to follow up on your question in terms of -- you know, even a company our size, you know, we have a ton of licensing arrangements, co-promotion agreements, what have you, where the definitions of what is net sales, you know, various other things, you know, it defaults to GAAP.

Now, what we did is we got smart over the last year or two, as we said whatever the, you know, current standards are that are in our external financial statements, whatever that is, that's our definition.

So, yes, we'd have to go back and probably, you know, renegotiate or modify or amend contracts, just so that the contract follows whatever information it is that we are going to be providing.

MR. KROEKER: Which -- presumably, there can be costs to that, not only the renegotiation, but whether you have the same leverage you had at the time you negotiated the original contract or not?

MR. ROWLAND: Correct. Because, you know, in any contract negotiation, the minute you have to make a change, the other party wants something in return. So, yes.

So, you know -- and it may be something as simple as you've got to pay them something for their time and effort to change their model, so they know that they're tracking their revenue properly.

MR. KROEKER: One of the issues that came up on the earlier panel that I am also interested -- particularly from the smaller-company perspective -- it's relevant to any preparer, but from the smaller-company perspective -- is the level of interpretive guidance.

I think we talked about principle-based standards, or principles, as the -- you know, kind of the model that the IASB has followed, and a discussion about whether, by design, their interpretative body that exists but issues less interpretive guidance. Will that be of concern to people on this group? Will you rely on others to then come up with that interpretive guidance?

And I'm just interested in, broadly, this panel's perspective on whether there is the right level of guidance, if we were to head down some type of incorporation approach.

MR. YEATES: I think that's huge. As we know, we don't have a lot, by design, by the IASB. But, you know, I don't know how the SEC is going to function in this new environment, having been through several comment letters, and you know, having maybe a difference of opinion on some things that, in our system which, you know, is much more -- has much more interpretive areas.

And I just -- that's why I think we need time to see how this plays out a little bit. I mean we have to move to the standard, but I just -- I don't know. I think it's going to be a huge thing. We are used to playing in a field with a lot of rules. And for us to change in a relatively short period, it is going to be very hard.

And, you know, as an auditor we often get asked, "Well, show me." You know, "Show me where you're coming up with that conclusion," and you know, you just say, "It's the right thing to do." Sometimes that doesn't play over well.

MR. GRUBB: I really echo Bill's comments there. I think, as I have worked with IFRS for a number of years now, it really requires a very different mind set to be able to use these standards effectively, and to really -- to use them the right way.

And those of us that have grown up in a U.S. GAAP environment, that is not easy. You know, we have come from an environment that has had much more interpretive guidance. In some regards it makes things a little bit easier. You know, people might disagree on that point, but I think when you compare it to working with the IFRS standards, it tends to be a little easier, a little bit less complex. So I think that that is, you know, just a reality that, if we're going to begin to use these standards, it's going to take some time to get there.

I touched on briefly earlier about the level of auditor interpretations because I think, necessarily, that is going to happen in the absence of official interpretation. So at least in what I have seen, the official vehicle for interpretations is the IFRIC. Many of the items that have been brought up on their potential agenda have been removed, and that was really to keep the standards more principles-based. And that was really by design. So, whether that continues under the new chairperson of the IASB remains to be seen.

But if that's going to be the case, and that's going to be the pervasive framework, is something that we really just need to adapt to, because we're not used to dealing in that environment. When a new standard comes out and there are questions that are raised, we are used to being able to put those to the FASB, the EITF, to the SEC, or to whomever, to get a timely response so that we really have that narrow field of potential interpretations.

If we are not going to get that in an IFRS environment, I think it's just going to -- it's going to really cause us to think differently. So what we are left with, then, is -- you're left with potential auditor interpretations, or you might have more things that come from a regulatory-type body. And I just think it's a different way to think about it.

MR. ZILKOWSKI: Jim, I think though, from a small company perspective, I mean I know every number in the books. I mean I look at, you know, down to the thousands of dollars, we are looking at transactions, just to make sure we understand why they are there.

And, you know, from a perspective of being able to move towards IFRS, I think interpretative guidance is important. We need to understand that a little better.

But, you know, small companies by nature are relatively nimble as well. We can move towards a standard, if we have the understanding, if we have the education, if we have the consultants who really know what they're doing, we can make that move easily and make our own interpretative guidance.

But I think it's also how one that -- you know, how hard are the accounting firms going to hit us up and what will the PCAOB start to do when they evaluate these accounting firms for this.

MR. KROEKER: I've heard reference on both panels to PCAOB driving practice. I don't know if people are just reluctant to say that we do that through our review process, but I suspect we will continue to have a pretty strong role in any world; in providing -- you know, through the CorpFin process or otherwise, ensuring that we think people are in compliance with the standards.

I'm not sure it's isolated to the PCAOB, in all fairness; so don't hesitate to raise that to us either.

Tricia?

MS. O'MALLEY: I was going to say one of the things that I think people might want to think about in terms of the interpretative guidance question is that -- I have to confess. I was the staff person for IFRIC for a couple of years.

The other major project that the IFRIC staff team has responsibility for, and now the IFRIC itself, is the annual improvements process.

And so I think it can be relatively effective, for example, right after the new business combinations standard came out. We got some help from one of the firm's person on secondment to go through something like 75 big questions that they instantly identified in the standard once it was originally released.

And I think we managed to process changes to the standard to clarify those things before -- and finalize it, before the standard even became effective.

So I think that one of the preferences at the IASB is if there is a problem in a standard, not to interpret it, but to fix it. So that you may actually not see as much additional guidance as what you will see as an amendment to the standard to try to clarify it.

It's an approach that is sort of like your codification, which is to try to get all of the guidance on one thing and one place.

The IASB is trying to do it through the IFRIC and annual improvements to get all of the guidance actually into the standard that it belongs in.

So I think it's one thing to talk about interpretative, but I think it's also worthwhile to talk about application or correction as well.

MR. KROEKER: Yes, one of the issues that exists or concerns that I have, and not that this is necessarily a bad thing, but there are groups that at least over time get referred to as "secret societies."

The secret society of leasing, or the secret society of stock comps, that meet and provide, at least amongst those people, a significant volume of accounting guidance that then gets followed, and it usually happens to be the largest of firms that participate in those.

And so if there is less prescriptive guidance, does that have an impact on -- a disproportionate impact either on auditors that aren't involved in that process or companies that might not have as direct of access, which is really kind of the nature of my question.

In the absence of that guidance, if others provide it, does that disproportionately impact smaller companies.

MS. GREENE: I would say, sitting here thinking about this whole interpretative guidance thing, and it's a little bit intimidating.

Because we have played with a lot of rules for a long time. And whether they are logical or not, we at least know what the rules are, and we know how to play within the game.

But I was sitting here thinking auditor guidance or interpretation and the secret societies, you know we -- our auditor is a regional firm, we don't use the Big 4 -- Big 4 or whatever they are now. They are big players.

So yes, they are going to be out there. The big companies are going to be out there. You may get small auditing firms, and small companies are going to get washed over by -- Ernst & Young comes out with whatever, and everybody is going to follow that because that's what they put out there, because they have the resources to get out there.

But I just think in terms of the interchange that I had with our auditors, and we have used several firms over the last 15 years or whatever, they all have different hot buttons.

And so if there is a lot of interpretation left out there for the auditor and the company management to haggle and hash over, I can see; you end up with -- depending on what auditing firm you are with and what the dynamics are between you and that auditing team, you can end up with a somewhat different result, if there is not more rules and formal, official interpretation out there.

MR. KROEKER: To be fair, I don't think that issue is unique to IFRS, so I guess, in discussing this, I shouldn't position this as this is an issue of IFRS, it is an issue with U.S. GAAP as well.

MS. LUISI: I just had a quick question for David. You mentioned a couple of times complexity of IFRS. And it's -- I'm used to hearing that U.S. GAAP is the one that is more complex because of the volume of the details, and that it's hard to get through that and figure out which model you're in.

So that was new to me to think about IFRS as the more complex because of the complexity of the judgments that are involved, that aren't required under U.S. GAAP.

And so I'm just curious if others also believe IFRS is more complex than U.S. GAAP, and David, if you want to speak anymore about that as well.

MR. GRUBB: I think you have characterized it right. Defining "complexity," I think the level of judgment that's needed, and it's the way that you have to think about it, the mental exercises you have to go through.

Because in order to apply a principles-based standard, you have to think about what the principle is, what are we trying to -- what is the ultimate goal here, what is the underlying economics of the transaction.

I know there has been a few references in the earlier panel that sometimes accounting standards don't come close to what the underlying economics are, which really should be the goal here.

But you have to understand the transaction. And I think where the complexity comes in is to identify potential different accounting models, so that we could account for it this way, we could account for it this way, and analyze each of those models, and look at the pro's and con's of each, and decide -- well, because it's never one-sided, and usually never all the evidence is on one side, this is the way to do it.

Many times there are multiple ways you could do it, and it's analyzing, "Well, why is this way better than this one?"

If I choose this one, I have what the auditors refer to as "contradictory evidence." So I have some evidence that might suggest it should be done differently, and how do I refute that or understand it and say well, yes, it's there, but the positive's on the other side are more important.

So that is where the complexity comes in, is the level of thinking and judgment that is involved.

MR. YEATES: You know, I've heard the argument. And I kind of agree that U.S. GAAP has evolved from a lot of different bodies, AICPA, FASB, and there has been some bad behavior, and we have made some rules, and some of them may not be right necessarily.

And changing to IFRS gives us the opportunity to maybe get a do-over, so to speak, and do it right. And I do agree with that.

But again, I think we are moving in the right directions. We are dealing with some of the problems that we have under GAAP.

And I think the long term goal will be kind of get this do-over. But again, I caution in moving too fast to that. And I think over time, we will get a little bit more interpretative guidance as well.

MR. KROEKER: When you say "do-over," I'm trying to understand it exactly. One aspect that I've heard before is that, you know, U.S. GAAP started with narrower guidance and then over time, we have put in place a rule which responds to this abuse or perceived abuse. If by "do-over," you mean a system that has less prescriptive guidance because we're not dealing as much with abuse, or...

MR. YEATES: Well, I don't know. Let's look at revenue recognition. There may be 100 different rules with regards to revenue recognition.

Why would one industry have a different

concept with regards to revenue recognition than another industry?

And I think some of that maybe is the result of what I would say perhaps some bad behavior or dealing with pressures of the day or whatever.

And I think the do-over is saying let's deal with the principle and let's kind of do it right, and kind of get rid of our 100 principles with regards to revenue recognition.

MS. LUISI: Do you think the demand would still be there, though, for the rules, in the end, in the U.S. environment?

Do you think if we got our do-over, could we resist the temptation to answer every question?

MR. YEATES: Oh, I think that is going to be hard. I totally agree, and that's the challenge. And I think -- again, I come back -- we need time to prepare for that. And we need an opportunity to re-educate our clients.

MR. KROEKER: Maybe there is a medium between EITF 0023, which I happen to be the staff person on at the EITF.

(Laughter.)

MR. KROEKER: I think we had 50 interpretative questions inside one EITF. If there is a medium between that and what IFRIC is doing. Other panelists on interpretive guidance?

(No response.)

MR. KROEKER: One of the things -- and it has come up several times in terms of -- I think people have said it's a proposal. We are interested on alternative approaches to incorporation of IFRS, but I want to be very clear, that the staff paper that was issued that explores a condorsement approach and then transitioning differences over time, that isn't a proposal.

That is only staff thinking, and that isn't to the exclusion of other models, whether that be adoption of a date certain or more fundamentally, even the question of whether to incorporate IFRS.

So this is all in the context of exploring where we should head, but with that in mind, I'm interested in people's views, of -- if you have a view, with respect to kind of, if you're king for the day and there is an ideal approach, what does that ideal approach look like?

And obviously, we have talked a lot about that. But is that an option? Is it date certain? Is it big bang? Why are we calling the question today? Really kind of -- If it was your call, in what direction would you head?

MR. YEATES: Fortunately, it's not ours.

(Laughter.)

MR. YEATES: No, you know, if you ask most of my clients, they would want to stay where they're at. I really believe that. They don't want the change. They understand it works.

I don't think that's the right answer. But I do think the SEC got it right in their October release of asking some really good questions in their work plan.

And I think you're moving forward with regard to the May release -- you are getting closer to it with the co-endorsement approach, in my opinion.

Again, I said it earlier, but I think at some point you have to do a date certain to get people moving because human nature, they are not going to move until it happens.

But I don't think you have to set that this year. I think it's arbitrary. I think you need to catch your breath and see how these 11 standards work out, and keep moving forward.

In a couple of years, I think we will be closer to figuring out when that date should be.

But I'm concerned that there may be a rush because we have this perceived need that maybe politically we have to keep the people on the other side of the ocean appeased a little bit, that we're on board.

I'm not sure what it is. But I like your approach and the way you are attacking it in the May release.

MS. GREENE: If I was king for a day. I had written some notes earlier this morning, and what I wrote down was, why not allow the companies that want to use IFRS, not make it a mandate, but for those who want to report in IFRS, let them, almost like dual reporting, which is kind of probably what they are doing now internally, but IFRS and some reconciliation of U.S. GAAP, but not require it for everyone, since you have companies that don't need it at all. Why force it on them?

But let those that need it basically dual report. So we have seen all the buzz about GAAP and non-GAAP stuff, and you have to do this reconciliation between the two.

Well, let -- couldn't the companies that need the IFRS reporting, couldn't they do that -- do some sort of reconciliation to GAAP in their filings and reporting, and those companies that don't need it would stick with U.S. GAAP. But then again as the pronouncements -- as the two roads, IFRS and U.S. GAAP, get closer and closer together -- which I guess that's going to continue -- then the reconciliation process between the two would become less and less.

So at some point down the road, their reconciliation process or the dual reporting would go away.

So if I was king or queen, that's what I'd do.

MR. ROWLAND: So if I were king for the day. So I guess from my perspective is there is never going to be 100 percent agreement on when you should do this or if you should do it or what have you.

And if you listened to the earlier panel, and I'm an investor, I really want to get to a global set of standards. It just makes things easier from an investor standpoint.

So if you sort of buy into that -- is the primary purpose of financial statements is comparability across companies and one set of standards makes that more compelling -- I think you need to move to this.

And I think the only way people are going to move to it is you are going to have to set a date.

Now the thing that comes along with that is does it have to be next year, or can it be a period of time where if people want to adopt earlier, here's the date you can start to adopt, but you have to be in by X date?

And I know there is no perfect way to do this. So you can argue about we can have some companies go early, so it's not going to be comparable to other companies, or what have you. But you have to start somewhere.

And I think the second part to it is that you have to allow enough time for education in that process. Because I can imagine I'm going to have to educate the Board. I'm going to have to educate the audit committee, probably a lot.

I'm going to have to educate the management inside the company, across all the operations, as to what is going to be different, that is going to impact comp.

And then I'm going to have to spend a lot of time with the investment community, investors. What's different? How are the trends impacted by changing over? What does it do to the history? How is that going to impact cash flows going forward? And those types of things.

And so that is going to take time for doing it right. Or you can rush it, and you are just going to have a lot of your people come out with comment letters and being very unhappy with financial statements and things as we move forward.

MR. ZILKOWSKI: I would agree, too, that it needs to be a little further out. There is just not enough resources for us in the smaller level companies to be able to understand it well enough at this point, to understand the nuances of it at this point, to be able to get it right when we eventually adopt.

And I think that my king for the day thing is maybe three years out looks to be the date that I have to cut over. Okay. It might be the day, maybe let me do it voluntarily, if I get it figured out before then, fine. But I can't see it being any time sooner than three years out.

MR. GRUBB: If it were my choice, my first option would be a date certain. I talked earlier about having a Big Bang option, within some other model, like a condorsement model, that would clearly be my second choice.

I think we have talked about human nature and resource constraints. I think for a lot of reasons a date certain is the best option. I think it helps the marketplace understand and anticipate what's going to happen, and when it's going to happen.

So in my mind, those are a lot of compelling reasons to go that route.

I do think, however, that we need to let the IASB/FASB convergence projects work themselves through a little bit further. In particular, the leases, the revenue recognition, and I think most importantly, the financial instruments standard. I think that needs to get hammered out.

And as we know, there are differences of opinion that continue to persist in the financial instruments standard.

And I think before we try and go further to set any sort of date certain, we have to get an understanding of when those big issues are going to be dealt with, and I think then we can schedule the rest of it out.

But to try and establish a date certain when there is so much uncertainty about these other standards, because they are going to be re-exposed and the financial instruments standard, as I mentioned, we don't have final agreement yet, I think that is going to add some unnecessary complexity and some anxiety to the process.

MR. KROEKER: More time to chart the final course or the date certain course until we see solid final standards on -- whatever course that we're working on right now.

MR. GRUBB: Maybe not final standards, but at least if we have agreement from both Boards and we have a time table, realistic -- fine. I agree.

MR. NALLENGARA: David and Tricia, if you would speak to this, but Canadian companies -- what has been the smaller Canadian company experience in the transition? What has been the unexpected hurdles, the unexpected costs?

I guess Charlie and Shannon, are probably -- they just don't have the resources to put to thinking about that right now.

What are things that they may not be thinking about as part of -- as they look to possible transition?

MR. GRUBB: I can't comment specifically on Canada because most of my clients are all domestic clients.

But the IFRS adoptions I have gone through, the common mistake I see is under-estimating the time and effort that it takes. And you can, Daniel, probably comment on this, having gone through the process.

But to do it right, to really embrace the standards and adopt IFRS, it requires you to go back and look at all of your accounting policies to make sure that they are IFRS compliant.

A common mistake is to assume that well, I don't think there's a difference between the standards, so my current policy is fine, I'm not going to do it, and then once you start to get into the actual analysis of it, you start to see all these issues emanate.

And I think it was Bill mentioned earlier that once we get through these convergence projects, the remaining differences between U.S. GAAP and IFRS are still very substantial, even in areas that appear on the surface to be converged, once you start to get down into the minutia, there are substantial differences.

So that is the lesson that I've learned -- is that you need to allow ample time to do it. You need to do it properly. You need to get down to that very granular level. Because if you don't, you are going to be doing it at some point in the future, and so you might as well do it right up front.

MS. O'MALLEY: Just one observation. It seems to me that the result of the process that's laid out in the staff paper is that U.S. companies will be able to state compliance both with U.S. GAAP and IFRS at some point in the future, if that process goes to the end.

If that's correct, the one thing I think people need to remember is IFRS I on first-time adoption. And that assumes that at some point you essentially -- IFRS 1 essentially assumes a Big Bang cut over.

So that if you have already done all of this converging and adopting, and I think almost all of -- if my recollection is correct, all of the converged MOU standards are going to have the same effective date, that may be okay, so they would all have been gone into place at the same time.

But to the extent there is any slippage in any of those dates, when you actually finally want to say you are IFRS-compliant, you may have to do a quick run through that whole process again, just to see if you have actually met the requirements of the first-time adoption standard.

So it's -- that is one of the things that has actually caused a certain amount of angst in the Canadian transition, is how many times do you get to go through the process, or make decisions on some of these standards.

In terms of the Canadian experience with the smaller public companies, everything that this panel has said is absolutely true.

Without a date certain, no one will do anything. That was for the big companies, too. The smaller companies were busy fighting the fires of the recession in the middle of trying to do this, and therefore, most of them did leave much of it to the last minute.

I think a lot of them did under-estimate the amount of work it was going to take when they got to the last minute to actually do it.

And the first reporting -- the first analysis of the first quarter reports, the first transition disclosures, that the Ontario Securities Commission has done indicates that there is some significant problems with some of the transition disclosures.

The expectation is that they have already sent out comment letters, and they will get better by the time they get to the second quarter, and clearly, by the end of the year.

But there is an issue there that the Canadian Securities administrators don't require auditor involvement in the interims -- the review of the interims -- which certainly a lot of our practitioners have said if you really wanted to make sure that first go-around of the transition disclosures was well done, people needed to involve their advisors sooner rather than later.

But so far, nothing really horrible seems to have happened.

MS. SEIDMAN: Just a quick clarification. For the current active projects that are on the MOU, we have not yet made any decisions about the effective dates, whether they will be at the same date or which years.

MR. KROEKER: As it relates to the staff paper, and the idea of -- and I think it's laid out as a goal, not a certainty, but the idea would be if there are differences over time, and you could state dual compliance, we understand obviously as a staff that IAS-1 would be very important to that.

We are also hopeful that, if we were to make a decision down that line, the IASB would be very willing to work with the United States as a country to figure out how to smooth those differences over.

And I don't mean eliminate those. But we heard very clearly from the investor panel that retroactive accounting is the preferable treatment. That is nothing new. FASB hears it all the time. You heard it at the IASB all the time.

I think a couple of the examples though were things like PP&E, if the standard is substantially converged, but you might have to do slightly different depreciation accounting, is that important to investors? Obviously, if it is, we need to take that into account. If investors were to say we don't care, I think we need to work with the IASB to say we need to figure out a way to transition this.

MS. GREENE: A lot of what I've heard in the last five minutes sounds eerily familiar to the Sarbanes-Oxley 404 issue.

So if -- while I still would like to not have to do IFRS for our company, maybe we could get a waiver or something, I don't know.

(Laughter.)

MS. GREENE: But if this is where it's going, then I would encourage the SEC when they get ready to set the dates, make sure that you have allowed enough time to handle all of the what if's and the unintended consequences, particularly for small businesses.

The SOX thing, you know that came out and we jumped through hoops and hired all these people, and spent all this money to help us with that whole process, and then it got delayed.

And so we had other alligators to deal with so we put it on the back burner and we went off and did other things, and then it came back up again.

So we brought in the troops again, and we spent more money to update everything, and we did that three or four or five times, I don't remember, before the permanent exemption came in.

So it -- this process, you know, starts early. It's going to be a lot bigger than you think. We heard that and we jumped in because it was going to be big. But then the delay mechanisms, basically, we spent half a million dollars for absolutely nothing, by the time it was all said and done.

And I love the permanent exemption, I'm thrilled with that.

So all I'm saying is if you're going to set a date for small companies, if you decide they are going to comply, too, just make sure that you have gone through all the what if's and the outcries and the uproars that you are going to get, and don't start it and then delay it, because we will jump in. We either play in the game, and we're a public company, you have to play in the game or get out, and that's obviously an option for some companies.

But I just -- as painful as it will be, don't start it and stop, and start and stop. Because that just costs everybody more money.

MR. KROEKER: Incrementally, more expensive --

MS. GREENE: Absolutely.

MR. KROEKER: -- to have a date certain, then not date certain, then date certain.

MS. GREENE: Absolutely. So make sure you allow enough time to address all those unintended consequences before you really force us all off the edge of a cliff.

(Laughter.)

MR. KROEKER: Shelly? Lona? Others? Other questions? In wrapping up, anything else we ought to know, comments you didn't get across at this point? We will just go down the line. We will start, Daniel, with you, and 30 seconds to a minute.

MR. BECK: So I just wanted to be clear. Obviously, we are supportive of an IFRS adoption and would really like to see a circumstance where companies were allowed to early adopt.

Again, that is for the savings and the internal ability to be able to manage our business using one set of accounting standards across our entire company.

That said, there are regulatory and other filing requirements that need to be considered, and that would cut into those efficiencies.

But we are generally supportive of the condorsement approach and the move towards IFRS, and really want to get across, though, the fact that there needs to be clear guidance and time lines associated with that, and that will allow companies like us to continue to plan for the other things that we will need to do around adoption.

MR. GRUBB: A lot of my comments I think are very similar to Daniel's in terms of our support of the overall process and I think the ultimate goal.

One point I was glad that -- I think Tricia brought this up in her comments, about students at universities that kind of got caught in the middle there. I think that's very important when you start to think about the broader -- whether you call these economic or societal costs -- the impact that it has.

We need to make sure we're thinking very broadly about what -- the impact it ultimately has. And so clearly, it has impact on companies and their specific contracts and investors, but it does touch many more individuals and other institutions.

And so I think to the extent they are considered in this overall process, to -- and I have talked to several folks about this issue, with universities, the time to build in curriculum and textbooks, and just all the very practical issues we need to consider.

I think we need to make sure we take those into account.

MR. ROWLAND: Jim, instead of repeating what other people have said, I would just like to thank you and the Commission for inviting me here. This was, I think, very useful.

It's nice to know at least you will listen to our opinions, whether or not you will do anything with them, you know, that's okay. But I feel better.

(Laughter.)

MR. ROWLAND: So when the deadlines come out and so forth, I'll at least say hey, maybe I influenced this, even though we probably had no influence whatsoever. That's okay.

No, so I also thought this was helpful in just hearing a couple of other people's perspective that I hadn't thought of prior to this.

So thank you.

MR. YEATES: I share Charlie in thanking you for letting me share some of my clients' opinions, as well as being an auditor.

We talked a lot about standards. I do believe there still remains a lot of structural issues at the IASB with regards to funding, independence, you know, oversight by the regulatory areas. I think, you know, we have seen some initial delays on some of the standards already.

I agree with regards to the date certain at some point, but I am very hopeful that you won't rush to this, and give us maybe at least another year or so before you try to establish those dates.

I know people may be a little bit anxious, but I think there is a lot of areas that need to play out, and even if it's two years out, you know, for you to make that determination. And I think there is a lot of risk of moving too quickly.

So I just -- I don't see the down side as much to do this deliberate, as outlined in the October plan, and to get it right.

MR. ZILKOWSKI: Well, I appreciate the opportunity to say my opinions here as well. And I think that I learned a lot from the Commission. I appreciate being on the roundtable to hear the other responses as well. I think you clearly have a lot of work ahead of you. So I don't envy this. So thank you again.

MR. KROEKER: Well, thanks to each of the panelists. I know just as the earlier panel, you all have day jobs that keep you more than busy. So thanks for taking the time, one, to come here and to share your views. They are important to us.

And with that, we'll take a 15 minute break, and we'll start back at 2:45.

(A brief recess was taken.)

PANEL THREE:

REGULATORY ENVIRONMENT

MR. KROEKER: Let's go ahead and start with the third and final panel of the day. This panel is comprised of other individuals representing the regulatory perspective, from different regulatory perspectives.

We have representatives representing banking, energy, insurance, and the National Association of State Boards of Accountancy.

Obviously, any decision on incorporation of IFRS doesn't just impact public companies filing with the SEC, only for purposes of filing with us. It could have other implications, and it wouldn't necessarily only impact public companies.

So I think we have a cross section of panelists that can share perspectives on their views with respect to some of the fundamental questions, is it a good idea, kind of yes, no, more nuanced, if so, what implications does it have, what are the threshold issues we ought to be asking.

We are very pleased to have Bryan Craig, the Director and Chief Accountant of the Division of Audits, Office of Enforcement, at the Federal Energy Regulatory Commission joining us.

And I am starting again from my left and moving that way.

Rob Esson is a Senior Policy Fellow for International Affairs at the National Association of Insurance Commissioners. Glad to have him join.

Gaylen Hansen, and this is going to be a mouthful, is the EKS&H Partner and Director of Quality and Assurance, and the NASBA Director-at-large, National Association of State Boards of Accountancy, representing a very important additional regulatory perspective.

And we have Kathy Murphy, Chief Accountant, Office of the Comptroller of the Currency joining us, and finally, Nick Satriano, the Chief Accountant at the Federal Housing Finance Agency.

With that, as with the other panels, I'd like to give the individual panelists an opportunity to make any opening remarks that they have. If you have opening remarks, you are more than welcome to give them again. Don't feel compelled. We don't want to put folks on the spot.

And we can start at my immediate left with Brian, with you.

MR. CRAIG: Thank you for the opportunity to appear before you to discuss International Financial Reporting Standards as it relates to the energy regulatory environment.

As Jim said, my name is Bryan Craig. I am the Director and Chief Accountant at the Federal Energy Regulatory Commission, in the Office of Enforcement.

I'm here today as a FERC staffer, so the views that I express today does not necessarily represent the Commission or a particular individual at the Commission.

FERC is an independent agency responsible for, among other things, regulating the interstate transmission of electricity, natural gas, and oil. FERC also regulates the wholesale sale of electricity and natural gas.

In addition, FERC administers accounting and financial reporting regulations applicable to public utilities, natural gas companies, and oil pipeline carriers.

Public utilities and natural gas companies provide energy services based on a regulatory compact. This compact requires public utilities and natural gas companies to provide reliable energy service to all future and current customers in exchange for the rights to be compensated for all costs that they prudently incur to provide that service, plus a reasonable return on invested capital.

Consistent with this compact, one of FERC's core responsibilities is to ensure that utility rates and related terms and conditions of service are just and reasonable, and are not unduly discriminatory or preferential.

Both FERC and state regulators establish customer rates using a cost-based methodology. The rates charged to customers by public utilities and natural gas companies are based on the underlying cost of service for providing gas and electric.

Electric and gas rates are developed using information in financial reports administered by the FERC and state regulators, the SEC information and other information provided by these companies.

Therefore, the accounting that is used at the Commission is directly linked to the process of setting rates. FERC accounting regulations and financial reports are based on and largely consistent with GAAP. Differences only arise when there is strict adherence to GAAP that will produce an unreasonable or undesirable rate outcome.

FERC accounting regulations and financial reports are unique in that there are a specific set of accounts that costs are recorded in and tracked. Consequently, the conversion of the basis of U.S. financial reporting from GAAP to IFRS would require FERC to one, evaluate how accounting standards under IFRS would impact the current rate making policy rules and orders at the Commission.

It also will require FERC to determine whether any departures from IFRS are necessary for the development of just and reasonable rates that our customers pay.

And thirdly and finally, it will make all resulting modifications to our system of accounts and other FERC rate making policy rules and practices -- we would have to take a look at those practices and see what type of adjustments we need to do in terms of implementing IFRS, if we choose to do that.

I also want to point out that those changes to FERC's system of accounts also affects state regulators, who use the same system of accounts in large as we do at the Commission. While there are a number of differences between GAAP and IFRS which would impact FERC and the entities we regulate, the lack of a standard to recognize the economic effects of regulation under IFRS creates the most significant impact for us and causes the greatest concern.

The FERC recognizes the importance of having a standard that recognizes the differences in the rate making environment that the Commission and its entities have to adhere to under GAAP. GAAP in the U.S. has established a standard, FAS-71, that recognizes the differences between the rate making actions of the rate regulated entities and the costs that they incur. In FAS 71, one of the important aspects of it is it allows a public utility and natural gas company to recognize regulatory assets and liabilities in their financial statements.

Regulatory assets and liabilities are critical tools which represent the right to defer costs or revenues and collect them from or return them to customers in a different period than they would ordinarily be recognized under other GAAP pronouncements. Moving forward in convergence to IFRS in the United States, we believe that any type of movement in that direction should encompass a standard that accommodates the rate-regulated entities that we are responsible for regulating.

Today, public utilities and natural gas companies have recorded in their books, and on those financial statements that are filed here with the Commission, a net of $73 billion in regulatory assets. If there is not a standard that reflects the regulatory environment in which we regulate, companies will be faced with possibly writing off about 20 percent of their equity.

FERC has raised these concerns to the IASB and the SEC regarding the implication of a convergence to IFRS as a basis of U.S. financial reporting. As a result, there can be differences in how rate-regulated entities recognize and measure the economic effects of regulation.

What we are concerned with that if you have some companies that are adopting IFRS in our environment and some that are not, that that could create a great divergence in practice, which would create a lot of problems for the Commission.

And without such an accounting standard, rate-regulated entities may be required again to write off these net regulatory assets, which could create rate shock to customers if the Commission allows these costs to be recovered in rates.

FERC has commented on the SEC November 2008 road map. They commented on IASB July 2009 exposure draft for rate regulated entities, and IASB staff September 2010 agenda papers, No. 12 through 12D that addressed the issues of rate regulated entities.

We also had one of our Commissioners to travel to London to discuss directly with IASB their concerns related to the adoption of IFRS and the impact of that on the rate regulated entities. However, today, it is unknown whether IASB will develop an accounting standard that will give recognition to the economic effects of costs of service regulations that our entities are required to develop rates based on those concepts.

I conclude by stating that many of the concerns of FERC are also concerns of many state utility commissions and rate-regulated entities across the U.S. And I urge the SEC to make any convergence to IFRS in a manner that ensures rate-regulated entities are able to continue to accurately report the economic effects of regulations.

Thank you.

MR. KROEKER: Thank you. Rob?

MR. ESSON: Thank you. I'd just like to give some background on the NAIC and its process.

The primary goal of the U.S. insurance regulators is protection of policy holders and solvency evaluation -- it is only one arrow in the quiver, but it is a very important one.

And the current regulatory reporting system in the United States uses what is called "statutory accounting principles," which are promulgated by the NAIC. However, they are based on the framework of GAAP, and the NAIC accepts, modifies or rejects new GAAP proposals.

It is important to add because we are not only a national regulator but are also part of the international community, a member of the International Association of Insurance Supervisors.

I'd like to just mention they have a policy which the NAIC has endorsed, which is that it is preferable if methodologies for calculating items in general purpose financial statements, so GAAP or IFRS, are substantially consistent with methodologies used for solvency evaluation, with as few differences as possible. So that is an aim that we would like to see in whatever the future of accounting winds up being in the United States.

To the extent that the SEC were to decide to move forward and adopt IFRS, then we would expect if nothing changed, that U.S. insurance regulators would consider full adoption or rejection or modification of IFRS instead of U.S. GAAP, even under the current system.

But the reality is we are actually looking a bit wider than that. We are looking at the spectrum going all the way from total rejection, keep things as they are, all the way up to conceivably utilizing IFRS completely and doing all our adjustments through capital charges and such like.

If I take my hat off and simply look into the crystal ball, I would guess it would be neither of those ends of the spectrum. It would be somewhere in the middle with a degree of adoption and a degree of modification, et cetera, maybe a condorsement approach almost.

However, a decision has not been made by U.S. insurance regulators as yet as to what they would do in the event that the SEC makes that decision, and that isn't because we haven't paid attention to it, but probably the major reason is that the two largest standards that relate to an insurer's balance sheet are insurance contracts and financial instruments.

And neither of those are finished, and we don't know what the U.S. GAAP is going to look like, and we don't know what the IFRS is going to look like. We hope they are going to look the same when the two Boards get to the end, but that does make it very difficult for us to make a prediction as to which way we would jump. Almost certainly, whatever way we did jump and whatever does happen, we will be needing to re-calibrate our solvency tools, and that will be a significant task.

One other thing I would mention is that

there is a strong interrelationship between the U.S. regulatory statutory accounting principles and U.S. tax basis. To the extent that those statutory accounting principles change as a result of the underlying GAAP changes or movement to IFRS, as someone else mentioned this, but this affects our statutory accounting; it is likely to have knock-on effects in tax.

The final thing I would like to say is almost whatever the SEC does, I suspect it is going to be very much like banging your head against a brick wall.

It's great when it stops and you get to the end of it.

(Laughter.)

MR. ESSON: Thank you.

MR. KROEKER: Thank you. Gaylen?

MR. HANSEN: Thank you so much, Jim, and thank you for inviting us here today. I appreciate the opportunity, and I will be speaking for the National Association of State Boards of Accountancy.

Accountancy regulation in the United States is separate and apart from professional associations, which is not the case in much of the world. In addition to the PCAOB, SEC, and other Federal agencies, we have 55 state regulators. These state boards are all members of the National Association of State Boards of Accountancy, and collectively, they oversee the largest group of licensed accounting professionals in the world, over 650,000.

State Boards of Accountancies are legislatively mandated, statutorily chartered, and work closely with the profession to protect the public interest. So it is fitting that NASBA on behalf of our state board members has been asked to address the key issues discussed here today.

There is more about the background of both state boards and NASBA in my posted comments. NASBA does support the idea of a single set of high quality global accounting standards. However, the case must be made that IFRS is not only a good idea, but clearly superior to what we have.

This morning we heard investors explain they don't view IFRS to be better than U.S. GAAP or vice versa. So we need to ask ourselves "what is in all of this for us?" I struggle with that answer, because it isn't clear. Otherwise, we wouldn't even be here today.

In the last panel, I loved the comment of my good friend, Bill Yeates, "show me." We need to be shown. And before I go further, I will first note that NASBA has nothing to sell: no IFRS textbooks, credentials, or courses to offer up. We are not vested in this one way or the other. Our position is based solely on the national interest.

So far, we have heard a lot about how and when about IFRS, but the more relevant question is "why IFRS to begin with?" While I can't address all of our concerns, here are three major ones. First of all, the case has not been made that IFRS is better than U.S. GAAP. U.S. GAAP has the distinction historically of being the gold standard of financial reporting. As mentioned earlier today in the investor panel, they conceded ratings' neutrality between U.S. GAAP and IFRS.

So IFRS is not better than U.S. GAAP. Considering the status of U.S. GAAP and the risks involved in this decision, IFRS must be much better than GAAP before we buy into IFRS. The notion of one universal GAAP is largely a myth. There are numerous versions, not a single set. It is said that over 120 countries worldwide have adopted IFRS. This is simply not true.

With condorsement, the SEC has now come full circle from insisting four years ago on an IASB as-issued version to now accept a U.S. flavor of IFRS. It is hoped that differences with U.S. GAAP will be rare, but there is no reason to believe the differences will actually be rare. As a result, the plan put forward will cause confusion and a loss of investor confidence.

For too long we have looked primarily to suppliers of financial reporting rather than the needs of users, especially investors. This was noted by several of the panelists this morning. Despite the spin of overwhelming support in comment letters, there is actually substantial concern and much outright opposition.

I have never had an individual lender or investor request international standards. The call is always from suppliers, historically, multinational's and some accounting firms. We have recently read where even some of them are having doubts.

IFRS has been sold based upon the unfounded hyperbole it is better because its principles based. That claim is patently false. There are principles and rules in both U.S. GAAP and IFRS. Indeed, there are significant risks of over emphasizing all things principled. Management has demonstrated repeatedly when allowed free rein to exercise judgment that there will be increased pressure on the external auditor and detection risk.

The second area is governance. The governance of IASB must be sound. It has to be truly independent financially and politically. Its funding must be assured and free of influence. It must be at least as independent as the FASB is today. Unfortunately, that is where IASB comes up short.

Related to governance is the issue of sovereignty and private financial reporting. That is an area that we haven't heard much about today, but private financial reporting is involved in companies that constitute 50 percent of our gross national product.

Sovereignty weighs heavily on protection of our national interests. IFRS will be the baseline for private reporting where states have sovereignty, as acknowledged by Sarbanes-Oxley. It would be helpful if those with responsibility over private financial reporting be formally recognized in these deliberations.

And the third and last area is costs. Costs need to be carefully considered and must be reasonable. Very little has been done to address the costs heretofore. It was interesting in the last panel, it seemed to be that was the major focus of those small issuers. Some believe that the costs will be staggering. While the outlay by the largest issuers may result in some benefits, that is highly unlikely for smaller companies.

At a time when the country is struggling to place this burden on the backs of small businesses is not only unthinkable, it would be unfair and unwise. IFRS heavily favors the largest auditing firms at the expense of smaller practices. IFRS will further solidify concentration of the profession. Importantly, this already untenable situation will put more pressure on independence.

Going to multiple versions of GAAP will create CPA firm have and have not's. Small and mid-sized firms simply do not have the resources to support multiple versions of GAAP. This is not healthy for the nation, the profession, or investors.

And in conclusion, international standards may be somewhat like the Holy Grail. We are searching for it but only if you think there is a reasonable chance of finding it. There are extremely high risks in condorsement, as suggested. We may not know for several decades whether it was a bad idea or a very bad idea, and if so, in time to recover.

We support continuation of the FASB in its present form and continued convergence, but not convergence for its own sake or based on compromise. FASB should not become a mere conduit to import IASB standards. IFRS fails on all three counts. It's not better. Its governance comes up short. And costs are anyone's guess.

Accordingly, we ask you to reconsider the current proposal. Our view is that this project will dilute if not weaken America's oversight of its own standards. That alone is not in our national interest. Why we would impose this upon ourselves without any compulsion at all is even more remarkable.

Thank you.

MR. KROEKER: Thanks, Gaylen. Kathy?

MS. MURPHY: Thanks, Jim. I don't have as extensive remarks as my fellow panelists.

My name is Kathy Murphy. As Jim said, I'm the Chief Accountant at the OCC. I'm here in that capacity, but I'm also representing the Chief Accountants of the other Federal financial institution regulatory agencies. That includes the Federal Reserve Board, the FDIC, the Office of Thrift Supervision, and the National Credit Union Administration. So collectively, we supervise over 15,000 financial institutions, and a significant percentage of those are not public.

I think as far as just opening remarks, the agencies overall have long supported one set of globally high quality accounting standards, similar to what a lot of the panelists have said today. I think as we look at that and we look at the recent paper on co-endorsement, I think that a couple of things we want to mention was:

I think the other SEC Office of Chief Accountant papers that you have in development about studying IFRS and how it is being implemented today and whether there is consistency on that, and also just the differences in IFRS as it stands, I think those are increasingly important as we look at co-endorsement, so we are waiting on those as we evaluate the papers.

I think the other aspect is as I

mentioned, we have public and non-public financial institutions, and a majority of the percentage we have are not public. So I think at the same time we are wanting transparency from the Financial Accounting Foundation on their decisions for private companies.

So I think from that standpoint and looking at -- and I guess we will get into our supervision and how our regulatory reporting by statute is consistent with U.S. GAAP -- having dual sets. We all say one set of global, we also would like one set of U.S. standards. So I think that is the basis of looking forward.

And again, thank you. In looking at the MOU projects and also the Commission's work plan, it is a very challenging endeavor. So we really appreciate the opportunity to be here today.

MR. KROEKER: Thanks, Kathy. Nick?

MR. SATRIANO: Hi. My name is Nick Satriano. And I am from the FHFA, but today, the comments are largely my own. I will reference some comment letters that the FHFA has submitted in reference to the convergence to IFRS.

So I would just like to thank the Commission for having me here today to participate in this roundtable.

In previous comment letters that we have submitted to the FASB on many of the MOU projects, FHFA has consistently supported a move to create one high quality set of global accounting standards, and we support the Commission in their effort to encourage and move that process along. We think there would be a general improvement for U.S. investors and other users of financial information, including us as regulators.

We regulate the 12 Federal Home Loan Banks and are also the regulator and conservator of Fannie Mae and Freddie Mac. Therefore, we are deeply interested in high quality financial statements and use them significantly in our supervisory processes. Our hope would be that one set of financial statements would promote unbiased, transparent and relevant information about the condition of the regulated entities.

Also, all of our regulated entities issue debt securities globally, and we feel that with investors all throughout the world, we feel that one high quality set of accounting standards that are globally accepted and consistently implemented would facilitate investment decisions by investors and capital markets throughout the world.

So we look forward to continuing to participate in this process, but do acknowledge even just looking at participating in some of the MOU projects and the comment process that it is quite difficult to get to high quality, and that may be determined in the eyes of the beholder.

I look forward to participation.

MR. KROEKER: Thank you very much. I think just through the opening remarks, we can see that any decision to incorporate IFRS doesn't just impact one group, but it has impacts across the entire U.S. economy. And maybe we could start with -- a little more granular, how is it that each regulatory agency is using U.S. GAAP as a basis for financial reporting?

Bryan, I know you talked about FAS 71. I would probably oversimplify and say in good times, somebody is collecting excess rates, they set up a regulatory liability. That's in their GAAP financial statement. That's pretty important to you, it sounds like, in setting rate regulation.

Are there other areas, and maybe each -- from a banking perspective, from a NASBA perspective, from an insurance perspective?

MR. CRAIG: Yes, Jim. One of the important things to realize in what we regulate is that the foundation of the uniform system of accounts -- these are the accounting regulations that we have, that we use, that the rate regulated entities are required to follow -- is largely based on GAAP. So anything that happens with convergence to IFRS certainly would require us to take a look at how we would implement that. And that would not only create a situation because our staff is limited. And we would also have to determine which one of those that best fits our regulatory model.

Another area that it impacts, since accounting is linked to the rate making process in establishing rates. That becomes another important avenue and thing we have to think about as we think about IFRS.

And we also know that with any relationship to FAS-71, that's a key component for our industry. Because without having an international standard that allows us to recognize the effects, the economic effects of regulation, that regulatory asset, that net regulatory asset representing billions of dollars, it becomes in the balance.

And the rate making entity could seek to recover those costs, which will drive up the costs to customers, and that will create rate shock. And in these times, people are having a tough time paying their bills already.

MR. KROEKER: I guess one thing before we go on I think should be clear, it isn't that at looking at this, we think that accounting standards ought to be driven by other regulations.

So one, we want to know the impacts. And I think obviously, FASB's concept statements and their whole process is very clear that you set standards for transparency for investor purposes, but in some cases, for example, Statement 71, where you set up a regulatory asset, we have talked to numerous investors that say, look, they actually think it does exactly what you say, is recognize the economic effects of regulation, and certainly, we want to know the interplay between regulation and accounting standards.

But just as a premise, I want to be clear, we're not saying that regulatory impacts ought to drive a decision. It ought to just be -- it will help inform a decision.

MR. CRAIG: Exactly.

MR. KROEKER: Anyone else - how regulation interacts with GAAP?

MS. MURPHY: Who wants to go -- Rob? Okay. Just from a very broad -- I'll keep it a very broad, high level perspective, there are four major areas where we use -- where GAAP drives a lot of what we do.

One major area, of course, is our regulatory reporting. For banks, thrifts, credit unions, under statute, so under law, they are required to file regulatory reports that are uniform and consistent with GAAP.

And related to that, the supervisory process, so in assessing the condition, performance and risk profile of all the institutions, from regulatory reports and financials -- GAAP based financial statements, that is a critical part of that assessment. That's the first sort of broad area.

The second one would just be regulatory standards themselves. I think there are a lot of examples, the most common people know about is our regulatory capital standards. We have other things like legal lending limits. A lot of that is based off of the financial information that's consistent with U.S. GAAP.

The other couple areas, I'll just briefly mention, our licensing or other approval processes, a lot of those have certain thresholds that are based on GAAP based information about whether you need to seek approval and things of that sort. So that impacts it.

And then, of course, the last area is the whole assessment process, whether it be for insurance purposes under FDIC or NCUA, or for supervisory assessments, such as the OCC and the OTS.

So that is from just a very high level perspective where we use U.S. GAAP information.

MR. HANSEN: Jim, I'll weigh in then on this question. State boards use GAAP all the time. And we are a complaint driven agency. I served on the Colorado State Board of Accountancy for eight years. So GAAP is integral to the operations of state boards, state boards and the complaint system.

That complaint system involves members of just the public as they have problems in dealing with their CPAs. But state boards also get referrals from the SEC, the IRS, and all the other Federal agencies and state agencies, on the conduct of CPAs. So we are involved in discipline and enforcement, and GAAP is that yardstick.

Monthly, typically state boards meet and they go through cases on complaints in a similar fashion that I imagine that the SEC deals with in its enforcement cases. But the difference with state boards is we actually can take a person's livelihood away. We regulate both individuals that are in private practice as controllers and CPAs, but we also regulate the auditors that audit those companies that file on the public exchanges. And so enforcement and discipline is an important part of that.

If we were to have two different sets of accounting standards going on at the same time or a mixed version of those or different flavors of GAAP, it makes it all the more difficult for state boards to determine fairly and accurately when someone has departed from standards. And so from a disciplinary standpoint and enforcement standpoint, it's important.

The other area that state boards are involved with is establishing entry to the profession, and minimum standards of education. And of course, education and training of young people coming into the profession is important.

It is difficult for them right now to become CPAs because they have to learn two different sets of standards. And so that is another area that we are impacting.

MR. KROEKER: Thank you. Rob, then Nick.

MR. ESSON: Yes, I just wanted to say that every time one has multiple accounting regimes or multiple requirements, it increases costs to the company.

And although I mentioned earlier that state insurance commissioners are here to protect policy holders, if you increase the costs for the companies, and potentially unnecessarily, those costs will be passed on to the buying public, to the policy holders.

And if it's unnecessary, it's clearly not a good idea. So to the extent that one can utilize whatever the underlying public accounting is, without forcing people to have something different to meet a legal regulatory or other requirement, that is good. We can actually do, through the magic of debits and credits, a number of different things.

I'll give you an example. At the moment, within U.S. statutory accounting, we have the concept of a non-admitted asset -- it's an asset that we are not going to recognize for solvency purposes. It's recognized on the GAAP statements. Nonetheless, we would de-recognize it for statutory accounting.

Well, we could actually do it a different way. We could recognize it and instead create a capital charge.

Ultimately, we are prepared to be flexible if we move to a single global high quality set of financial statements on what our approach will be to try to minimize the long term costs.

I think it is important to try to minimize the differences that we land up having between things that are required for valid regulatory purposes and what is needed validly for public accounting.

Thank you.

MR. SATRIANO: In addition to what Kathy mentioned, I think FHFA as a newly created agency out of several historically or long time existing agencies, previously OFHEO and the Federal Housing Finance Board, we have historically old statutes creating our laws that specifically reference GAAP and our lawyers tell us are relatively inflexible with respect to the congressional intent articulated there.

So this would get maybe more to transition ultimately, if that was the decision, but there would be probably some significant issues that are baked into regulations and laws that are not necessarily in our control, if a decision to move ahead was made, that we would have to change ultimately.

MR. NALLENGARA: Kathy, have you thought about the transition? Have you -- has that been part of the work that you have been doing?

MS. MURPHY: Yes. I guess if you ask about if you were to transition to IFRS, or the questions about getting into a dual set, so if there was something different for private versus public companies and that sort of, I think similar to what Nick is saying, the first question we would have to ask is under statute, could we for regulatory reporting purposes have some companies reporting under IFRS and others under U.S. GAAP, as proposed by the FASB.

And so there would be, first we would have to say -- I think from what the attorneys tell us, it would be very difficult to have, if the two had significantly different outcomes, it would be very difficult to say that that's under statute.

Now if they were very similar outcomes, and then maybe it would be a different conversation.

So I think a lot of it, as we look and when you look at all the other activities that I mentioned, a lot of it does depend on are we looking at dual sets and then how different or the same are they, what happens.

Obviously, we are very interested in the MOU projects -- financial instruments, things of that are very key to the industries we regulate.

I think as we go through the assessments, similar in looking at first do we need to go to Congress and get a law changed, what do we do there, and then getting into what changes would we need to make, once you got past that. From a regulatory reporting perspective, how that impacts other standards and all the other things that I mentioned, let alone we haven't even gotten into training.

I think all the examiners, if there were dual sets, we would have to then explain to them, depending on who they are examining, which set they are following, and then if they are doing comparatives amongst institutions, that would cause some complications.

So it's definitely as we look at the transition are things we are focused on.

MR. KROEKER: Any -- obviously, the paper hasn't been out there that long that explores a process of endorsement, where on a standard by standard basis, things would effectively become U.S. GAAP subject to being endorsed, whether that addresses -- it certainly isn't the only reason to have -- it might even be a less important reason from some perspectives of being able to look out for our own national interest to the FASB.

But any thoughts on whether that would address the issue of the statutory requirements to follow U.S. GAAP?

MS. MURPHY: Do you want me to -- I'll kind of just quick follow up. Yes, I think if there was any sort of notion where you retain one U.S. GAAP notion, I think would be helpful from that regard looking at just in compliance with the statute, et cetera.

I think the other question though would still be what is the Financial Accounting Foundation decision for non-public entities.

So if that would then also apply to non-public and you have one U.S. GAAP notion for everyone, I think that does overcome the statute problem.

MR. SATRIANO: Yes, I would just add for FHFA, looking at the two primary statutes, they do reference GAAP. So it's not U.S. GAAP; it's just not clear.

When you look at the congressional record, they are clearly talking about GAAP. They're defining items as GAAP existed in the early 1990s, using certain terms for capital calculations and what not.

So if the elements of IFRS say, for example, in the MOU projects, become GAAP, we think -- the lawyers tentatively think that would probably solve the statutory issue, absent going to Congress and getting clarifications.

MR. KROEKER: Again, as we understand it right now, it's not just even an issue at the Federal level, but state. It could be local, it could be throughout the entire system.

Tricia?

MS. O'MALLEY: Yes, I was going to say this is the exact issue or one of them that caused the Canadian Board to decide to actually import all of IFRS into what is our set of standards are called the "CICA Handbook." And that particular document is referenced in I don't know how many pieces of legislation, 200, we lost count.

And so it was critically important knowing how legislative processes move that people be able to not just stay compliant with IFRS but in addition to be able to stay compliant with Canadian GAAP. It would have been a lot easier to simply be able to write one page into the handbook and say please go read the bound volume of the IASB.

But our legal counsel told us that that wasn't an appropriate exercise of the Board's due process, that we actually had to go through the process of moving it all into our set of standards.

I should say though to Kathy's question, we do have a separate set of standards for private enterprises. However, no financial institution can use them.

(Laughter.)

MS. O'MALLEY: We defined -- we did not say "public companies." We said "publicly accountable entities," and defined all entities with fiduciary responsibilities as publicly accountable so all of them -- so the regulator is only dealing with one set of standards.

So that was another conscious decision because we were in the process of developing the private enterprise standards as well, and it was critically important to both the Federal and provincial regulators of financial institutions that they have all of their entities fall under the same standards. So it was kind of in the definition of who followed which set that we dealt with that problem.

MR. KROEKER: We started each of the other panels out with the question of -- kind of the fundamental question, whether incorporation of IFRS is a good idea, is it not a good idea. Again each of the commenters talked a little bit about that in their opening remarks.

If there are particular issues that should be addressed, whether it's funding, and I think many of those have come out through the day, but I want to give the opportunity to this panel.

Gaylen, you described it as "why." I said "whether." I think "whether" is a similar question to "why." Whether others, all of the members of this panel, have a perspective they'd like to issue -- to offer on that.

MR. ESSON: I will simply start by saying the International Association of Insurance Supervisors, of which we are a member of, which sets international standards, what are called "insurance core principles," that are then evaluated against the financial sector assessment program, which the G20 has committed all members of the FSB to follow, so that obviously includes the

United States.

The fundamental IAIS structure of its valuation follows the likely IFRS requirements. That is not to say the U.S. is out of compliance, but the way that it is put together has a very deliberate IFRS flavor to it, and indeed, there is a commitment by the IAIS that once the major standards I mentioned before, financial instruments and insurance contracts, are finalized, that the IAIS will go back and take a look at its insurance core principles.

So to the extent that in the future the SEC were to decide to incorporate IFRS into the U.S. financial system, and the Commissioners I work for were to then decide to accept that or to modify it, which is probably slightly more likely, for statutory accounting purposes, it would align more closely with international requirements.

But I think that is a flavor. It's not something that "thou shalt" or you must or you will be out of compliance. It just brings things closer together. So to the extent that you get greater comparability internationally, greater ability within the financial sector to be able to understand cross border activities under one language, that is clearly an advantage.

But as everyone else has said, there are costs to this, and it's not going to be easy getting from where we are now to a future place, if it were to be IFRS. It's the transition that is the difficult bit.

MR. HANSEN: Jim, this is one area that I think is worthy of exploring is this whole notion -- and I talked about it earlier -- principles versus rules, and the impact of this. And I believe that's a red herring, as I said earlier in my remarks.

But the impact of an emphasis on principles, on fundamental behavior, and particularly, management decision-making.

There is the old adage "what gets measured gets managed." An example of that would be IFRS No. 9, that provides an opportunity to someone -- for someone, let's say on a loan, to decide to either capitalize that loan, capitalize it using fair value and measure it at fair value, or use amortized costs. So that decision there is supposedly a principled decision.

But what if you hold great bonds? What is the impact on behavior? Would there be a sort of a behavioral tendency to get rid of those bonds if you knew you had to carry those at fair value versus well, I have the choice of keeping them on the books at amortized costs.

So I think that is one area, this whole notion of management decision-making, that needs to be explored further.

MR. KROEKER: Yes, Kathy.

MS. MURPHY: Okay. Yes. I'll just say a couple quick things. I think, as I mentioned before, we are really interested in all the other papers and things like that before we have this is our view of the path.

I think it's very difficult -- everyone says and we are all in agreement we want one global standard, but no one goes as far to say here's the path.

So it's very difficult. But I think as we look, and we looked at the recent paper, just some things that we are debating and thinking about it is first, again retaining the U.S. GAAP notions, particularly at least for impact for regulation is helpful, as I mentioned before.

But we are concerned about the small company and the small non-private, about what happens, you know the FAF decision, et cetera.

I think as we look at the recent staff paper, and looking at -- and that you talk about a transition plan, I think that is one thing that we think is increasingly important, that it be a very well defined and transparent transition plan.

I think the other questions that we have, as we look -- and I think a lot of the panelists today talked about transparency, due process, and funding, and how that would all work. So we definitely agree with that.

And I think some other things that we -- just to kind of throw out -- that maybe haven't been talked about as much, is just some questions about well we are all looking at the IASB and FASB today, and they have MOU projects.

And it's very hard to sort of envision how the work paper would actually work when you have MOU -- where we're working together, and then there are some projects that there are a lot of concerns from different geographic areas around the world, and then if you see about how the IASB Board and FASB Board are going to vote, what is really the transparency?

I mean an example is the offsetting proposal. A lot of diverse comments worldwide. And at the latest Board meeting I think there was not agreement amongst the the IASB and FASB Board. I think the IASB Board, 15 unanimous would go forward.

Unless they can speak better than me to this --

I think a lot of us just have a lot of questions about how will this really work, and so transparency on is there going to be a re-thinking about what is the role -- just I'm speaking very broadly -- the role of board members about how do they consider comments and make their votes, clarity on that.

What is the role of project managers and outreach? Is it really to persuade individuals of views, or is to be unbiased gathering of -- to be worldwide standard-setter.

I think we just have a lot of questions about we are really interested in a well defined, if that was the path chosen by the Commission, what would be that transition plan and what kind of clarity and transparency would be offered to understand how things could be different than it is right now.

And then clearly, if we have two boards right now trying to come up with standards, would the ability to have a say and be considered from a U.S. capital markets' perspective, how will that change. You would think that we would have more of an ability now than under the approach and so there's just a lot of -- I think from that standpoint -- things that we are debating and thinking about and trying to come up with our -- if we have a position on the path.

MR. KROEKER: That is not dissimilar, I think, from the issue Leslie raised this morning, on insurance, if the boards are working together and don't see eye to eye, what is the right threshold for endorsement -- So I think a similar question.

And obviously, if we were to head down that path, we would work very closely with both the FAF and the FASB, to have a clear understanding of what the threshold would be.

But I think it's a very -- it's probably -- in that paper, it is as critical an issue as anything, for commenters to particularly focus on all aspects, but that one in particular.

MR. CRAIG: I think we would be concerned if any adoption of convergence to IFRS would not have a considered FAS 71 type of solution for some of the companies in our industry.

And besides that, even if it did have that solution, I think there is a concern with the level of costs. I think a number of panelists mentioned that today, from educating analysts, regulators, from revamping accounting systems, from having the costs associated with a multiple set of books, that is from a company perspective, even from the

Commission perspective, we would have challenges to resources to revamp our accounting system, our financial reporting systems and stuff like that.

So any type of convergence of going to IFRS, we would hope it would have that type of FAS-71 solution, and the consideration of the costs to implement that.

MR. KROEKER: Another area I thought was useful to spend a little time commenting on, we have talked about it a little bit already, is the impact on private companies. Obviously, not directly within the SEC's purview, to dictate the financial reporting standards for private companies.

But I don't think we could say we would have fully thought about the issue if we didn't think about any follow-on impact to private company financial reporting.

Kathy, you brought it up. Gaylen, you brought it up. But I'm sure to some degree it impacts -- it is a cross cutting issue for regulators, where the scope of regulation doesn't mirror a public company's -- as we think about it at the SEC -- financial reporting.

Of course, private companies in the U.S., the AICPA I guess has made clear already have an option to apply IFRS. I think it is recognized by -- at least indirectly by the state boards that private companies already have that choice, and I think AICPA made that clear in -- I can't remember whether it was 2007 or 2008.

Notwithstanding that, I am suspecting the use of IFRS for private companies has been relatively small, but again, they certainly have the choice.

So I'm interested in other perspectives on the impact of a decision on private companies.

MR. ESSON: Yes, if I can touch on that, Jim. I think that is something that comes in a tin can with the words "Ingredients - worms."

(Laughter.)

MR. ESSON: Because unfortunately, right at the moment, we only have one set of statutory accounting principles, which are utilized for all insurers -- licensed insurers in the United States, a large number of whom are non-public companies.

And although the structure of our statutory reporting, as I said, is based on GAAP and has been based on GAAP, so we built it from GAAP, a change to IFRS would be a very significant change.

And it brings up a question to which I actually have no good answer right now as to whether the costs of transition for the very large number of non-public insurance entities, to force them to transition to new statutory accounting principles based on a new GAAP, which itself were based on IFRS, is a very difficult question.

It's one that the insurance commissioners will be considering. But I can think of few answers if one wants to try to minimize the problems other than having separate accounting, which is itself difficult and brings in all sorts of difficulties with solvency evaluation, comparisons, et cetera.

It's a terribly difficult question to answer. I suspect it's the same question really for the idea of two GAAPs.

MR. KROEKER: Kathy?

MS. MURPHY: I guess I can just add, from a as I talked a little bit about just focusing on the small non-public, but I think another just aspect of that is even right now, when there are accounting changes, the small institutions, they don't have accounting policy units that are following accounting changes, so a lot of what we even do in regulatory reporting is issue quarterly instructions and the like to give them a head's up that these things are coming.

So I think from that standpoint, having

significant accounting changes is going to be a big cost for the smaller institutions, and at the same time, I think when we look at it just from the regulation side, a majority of our examiners do focus on the small, because we have so many, community banks and thrifts, credit unions, et cetera, they do focus on the smaller.

And there will be a huge education effort from that standpoint, just to have -- depending again -- it depends a lot on what happens with how different IFRS is from U.S. GAAP, if there is -- depending on what mechanism was used.

Those are some other aspects.

Mr. KROEKER: Tricia? And then Gaylen.

MS. O'MALLEY: I was just going to say from our experience, we gave everybody under the Board's jurisdiction, public companies, private companies, and not for profit organizations, the ability to choose IFRS.

So our research -- the preliminary research that was done by some of the firms and FEI indicated that as you would expect, the larger end of the private company space was actually choosing to go to IFRS instead of our private enterprise standards, simply because the big ones are much more comparable to public companies and their lenders and investors want the comparability that we heard about on the investor panel this morning.

The other thing I think however in terms of sort of what's going on in the U.S., I had an experience a number of years ago, and also talking to David from the last panel at the break, there seemed to be -- all the companies he was talking about helping transition to IFRS are private companies with significant foreign parent/investors that want IFRS financial statements.

And that is certainly what I found when I was talking to a group in Indianapolis in 2003.

So to the extent there has been a significant amount of foreign investment in U.S. private companies over the past five or ten years, I think people would be surprised by how much IFRS reporting is already going on, and in particular, in some fairly sizeable institutions.

So for example, our major life insurance companies almost all have huge U.S. subsidiaries that are all now having to convert to IFRS in order to report to the Canadian parent.

I would assume that the same thing has already taken place in the insurance industry with the movement of the major European companies.

So I think there's -- everybody thinks there is not very much IFRS knowledge or application in the U.S., but I think if you asked, you would find a lot more than people commonly think that is already there.

MR. HANSEN: Yes, on the private reporting, there is this trickle down, whatever starts at the SEC does trickle down, and ultimately is going to impact the private companies, and they are not necessarily small companies, as Tricia just pointed out.

Some of these private companies are very large, but the majority are pretty small companies. They go to their bank and they say they follow generally accepted accounting principles. That's the gold standard.

Nobody wants to be a second class citizen. Once we do have IFRS, if they are not on IFRS, is there going to be some sort of stain to whatever they are using that they have used in the past. So that's one thing I would get concerned about.

I will have to tell you this, the rank and file out there that I'm familiar with are small business clients. They are not real excited about this. There is not a lot of enthusiasm.

It goes back to that question, what's in it for me. We were talking, I think Tricia brought it up earlier today, this pipeline of experience that's coming out of the universities. I'm at the other end of that pipeline. I just turned 60, and I can tell you there are a lot of people that are saying I'm retiring before I have to learn this other set of standards.

(Laughter.)

MR. HANSEN: So there is an outflow of talent at the same time.

And then I guess the last area -- the remarks I would have on this subject just is the tax basis aspect of it. We're familiar with these book tax differences that potentially could be there. We know about LIFO. That's been a discussion.

But what may not be as commonly understood, that under U.S. GAAP we have write down's of inventory and property and equipment. Under IFRS, we can have write up's. I don't know what the impact of that is, not being a tax individual. I don't know how that works with our tax code and if that adds a lot of complexity to it.

But all of these things, they are going to have an impact on public companies, but they certainly are going to have significant impact on the small business privately reporting company.

MR. KROEKER: Commissioner Walter? Lona? Shelly? Any other questions?

(No response.)

MR. KROEKER: Well, let's do what we did with the other panels, we'll give each participant a last chance to get any remarks in that we have left out or if we have missed something, kind of final departing remarks.

We'll start -- Nick, we will just start with you and move this way.

MR. SATRIANO: One thing we didn't talk too much about is luckily, we have a lot of problems with our regulated entities, and some in conservatorship. But they are all public and they file financial statements with the SEC. So we have that simplification. Even though we also have some very big ones. And even for large companies, the cost would be significant. And I think the time lines would be relatively extended.

One of the benefits they have is that most of their key policies are being decided now through the MOU processes. So I don't know, at the end of the day, once the MOU processes are done, what is going to be left, if it's going to be a real killer for them. But I do think they are saying years to get it done. And a project similar to the consolidation effort, which I think some of you are familiar with, took Fannie and Freddie several years and quite a bit of money to adopt that in a standard.

So I think they are thinking something in a similar ball park. So that is a perspective from the very large firms.

Thank you.

MS. MURPHY: Just final remarks, just thanks for the opportunity. I'm trying to look back over -- I think we covered a lot in 60 minutes.

But from that standpoint, I think -- just wanted to -- another aspect, that as you are looking through this and working with the FAF and others, as you were saying, is other issues that we have been debating about, is right now, there is a lot of dual effective dates for private versus public, so transparency around that, would something like that continue, and things of that sort.

So I think from our standpoint, we look forward to other papers and things. From that we may have more questions and giving you official positions, but thanks for the opportunity to discuss it today.

MR. HANSEN: I think my comments would probably be along the lines of as we set out on this, it's a single set of high quality global standards, and what is a standard? It's something that's understood and followed with general acceptance, and at least a comparability.

I'm not sure that where we are going is a single set. We could be looking at multiple versions for public as well as private companies. For the foreign private issuer, we have one standard for the large companies, possibly another, and for the small issuer, yet another.

So from that standpoint, what is a standard? General acceptance, it has to be something that we understand and follow, that our people can be educated and trained on.

And then lastly, comparability. If you have multiple standards, comparability becomes difficult.

So sorry, Jim. But it's a tough job and it's your decision.

(Laughter.)

MR. KROEKER: Unfortunately, it's I'm part of that, but there are five people that will be key to that decision.

(Laughter.)

MR. ESSON: Just a couple of things that I realize that I didn't make it crystal clear that the NAIC Commissioners, insurance commissioners, endeavor to accept GAAP pronouncements, as long as there is not a regulatory reason to modify or reject.

So the hope would be there would be a way in the future of accepting that, and I also wanted to make clear, just in case it was misunderstood, that accepting such future standards would not necessarily mean that there wouldn't be a need for additional detail for regulatory assessment over and above what is required for public financial statements.

But I realized I didn't make those two points crystal clear, and just wanted to pass that on. Thank you.

MR. KROEKER: Thank you. And Bryan?

MR. CRAIG: In closing, I would just like to make just a few points. I didn't mention that the companies that we regulate probably would support more of a condorsement approach, to give them enough time to fully evaluate the impact of IFRS on their operations.

I think any adoption of IFRS -- I sound like a broken record -- should consider a FAS 71-type of solution.

I would like to continue to push that out there, and any transition to IFRS -- cost is always the elephant in the room, and it needs to be carefully thought about.

MR. KROEKER: Well, Bryan, Paul Beswick has done a lot of work on understanding FAS 71, and he has come up with a new revenue opportunity --

MR. CRAIG: Great.

MR. KROEKER: -- which is to create t-shirts that say "I (Heart) Statement 71."

(Laughter.)

MR. KROEKER: He thinks he can make more money --

MR. CRAIG: I think some of the entities represented here would like that.

(Laughter.)

MR. KROEKER: I don't think he's taken a position on that. It's a revenue opportunity for him.

MR. CRAIG: It's a start.

MR. KROEKER: Any concluding remarks by anyone else?

COMMISSIONER WALTER: Let me just, on behalf of the Chairman and the rest of my colleagues, Jim and his staff, Lona and his staff, everyone on the Commission staff, thank all of you so much for being here today and for working with us and airing the issues, and engaging in what hopefully doesn't seem like endless professional discussions about where to go, how to get there.

This is a very, very important issue, I think, to the U.S. capital markets and to U.S. investors.

Thank you very much for all of your help.

MR. KROEKER: Thank you. And with that, we are concluded.

(Whereupon, at 3:55 p.m. the meeting was concluded.)

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