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9 December 2010

International Accounting Standards Board  
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Financial Accounting Standards Board  
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## Standard Setting Timetable for MoU Projects

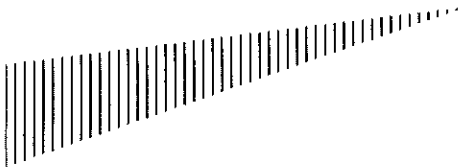
Dear members of the IASB and FASB:

We thank the members of the Boards for their efforts to continuously improve accounting and financial reporting standards to aid investors, preparers, auditors and all capital market participants globally and their work toward improved and converged standards. Further, we support and appreciate the Boards' recent commitment expressed in their 29 November 2010 progress report<sup>1</sup> "to conducting additional outreach during the redeliberations period, as necessary, to ensure the quality and effective implementation of the final standards." However, despite the Boards' decisions to delay projects with lower priorities and to allocate additional staff to projects viewed to be the highest priority, we are concerned that the Boards' continued plan to issue final standards on certain major projects by June 2011 may, in our view, result in the issuance of standards that do not adequately meet the needs of users and preparers.

We remain committed to the objective of a single set of high quality standards globally but are concerned about the volume and timing of the proposed standards and the difficulty preparers, investors, auditors and regulators may have digesting all of the changes. If the proposed standards under development are not, upon finalization, (i) clear (ii) able to be practically implemented and (iii) accompanied by robust implementation guidance, we are concerned that diversity in practice may result. We strongly support the Boards' efforts to converge IFRS and US GAAP, as noted above, but believe diversity in practice would be counter to this objective and not in the interest of investors.

As the Boards appreciate, the MoU projects are complex. Our recent observations and experiences in evaluating the exposure drafts released to date, coupled with what we believe to be feedback received by both Boards on unanticipated implementation concerns with a number of the projects, lead us to make the following recommendations:

<sup>1</sup> Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards, 29 November 2010



- Increased “field testing” in the preparer community is critical. We acknowledge that the Boards have issued a Request for Views about the effective dates of the proposed new standards and there may be a view that a longer time for implementation will address preparers’ concerns. However, field testing needs to occur before a standard is finalized, not afterwards. Specifically, we believe increased field testing will be required for the proposed standards on Revenue and Leases and in the impairment of financial instruments area. Adequate time needs to be allocated to these field testing efforts and we are concerned this cannot be accomplished within the next six months.
- Increased outreach in the user community must be pursued. In this regard, we note the report<sup>2</sup> recently released by the FASB on the financial instruments project appears to provide financial statement user input that differs, in some respects, from certain of the proposals contained in the FASB’s exposure draft. We commend the FASB on this effort and on the balanced reporting of the survey’s results, and believe this same outreach effort is required on all major projects. Again, we are concerned that this may not be accomplished within the next six months.
- A consistent approach to the development of implementation guidance must be formulated. While we support the Boards’ efforts to develop more “principles-based” standards, we also recognize that the application of such guidance to both specific transactions and broader industry issues will be challenging. We believe this type of implementation guidance must be part of the respective standards and finalized at the same time as the general principles. This is important because as the Boards develop implementation guidance, they may conclude that modifications to the basic principles are necessary. The Boards should consider establishing a resource group tailored for each major project to help develop implementation guidance. This effort should include participation of all affected constituents.
- We also recognize that it is not possible to contemplate all implementation issues and questions by the time a standard is finalized. Therefore, we recommend that the oversight bodies of both Boards begin considering how the interpretation process would best work in the future under a more fully converged set of standards. The FASB’s Emerging Issues Task Force and the IFRS Interpretations Committee currently have no processes in place to jointly deliberate implementation issues.
- Questions have arisen concerning the ability of preparers, users and auditors to absorb the contemplated volume of changes under the existing time line. Evaluating the proposals, understanding the potential effects and developing meaningful comments under a time line where many major projects are still scheduled to be completed by 30 June 2011 are clearly challenges for many. It is critical that these constituencies have the time necessary to provide meaningful feedback to the Boards on these important projects.

<sup>2</sup> *An overview of outreach provided through meetings and teleconferences with users of financial statements for the FASB’s Accounting for Financial Instruments Proposal, Chandy Smith, 29 September 2010*



We recognize the above efforts will take time to diligently pursue and responsibly complete. We believe this will require more time than is available under the current time line, even as recently amended, and is realistically a multi year undertaking. We would like to offer an alternative approach to prioritization (and related grouping) of the projects subject to the MoU to help advance the Boards' efforts towards convergence of US GAAP and IFRS. Under our suggested approach, the key focus should be on areas where more significant diversity in practice presently exists. Efforts to improve standards for which there is less current diversity should be given further time to finalize and the Boards' efforts on such projects should not interfere with completion of the more major near term convergence needs. Overall, the principles behind our suggested timetable amendment are as follows:

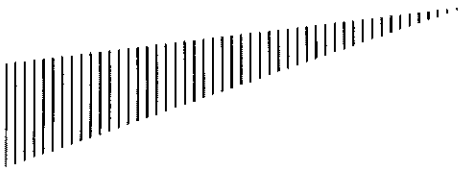
- Highest priority- Focus predominantly on projects that will help resolve significant diversity in standards. Undertake thorough field testing of the proposals on Revenue and Leases and in the impairment of financial instruments area.
- Next priority - Focus predominantly on projects that significantly improve current standards.
- Lesser priority - Focus on remaining convergence projects that do not require fundamental reconsideration of financial reporting and subsequently, focus on the remaining project that requires a fundamental reconsideration of financial reporting.

In the Appendix to this letter we have applied the above principles to the projects currently in process to develop an alternative prioritization (and related project grouping). We recognize there may be other reasonable alternatives. Our overall objective is to stress the need for more time to be devoted to the development of major projects that will likely affect financial reporting for many years to come.

We hope the Boards will consider our suggestions on amending the standard setting timetable and revising the prioritization of this unprecedented effort. Convergence of US GAAP and IFRS is an important objective on the path to achieving a single set of high-quality accounting standards used throughout the globe—an effort we continue to endorse without reservation.

We recognize that progress on the MoU projects is a relevant consideration for the SEC as it contemplates whether to commit to a date (or dates) regarding whether to incorporate IFRS into the financial reporting system for U.S. issuers. We hope that the additional time necessary to develop improved, high-quality standards in so many important areas will not significantly alter the SEC's continued progress on this important consideration, particularly when the added time is employed to enhance the quality of the standards (and, in our view, would truly represent time well invested).

On this point, we believe that progress towards converged standards in the financial instruments, fair value, and certain other areas can be achieved in 2011. Moreover, while accounting and disclosure in the revenue recognition and leasing areas can undoubtedly be improved, current diversity between US GAAP and IFRS in these areas is not substantial, and we would expect that by the end of 2011 (assuming a decision is made to delay finalizing these projects until a time later than 2011) the Boards will have continued to make



significant progress on, and demonstrated their commitment to, issuing converged standards on these topics.

\* \* \* \* \*

We would be pleased to discuss our comments at your convenience.

Very truly yours,

*Ernst + Young LLP*

CC:

Mr. John J. Brennan  
Chairman  
Financial Accounting Foundation

Mr. Tommaso Padoa-Schioppa  
Chairman  
IFRS Foundation

## Appendix

Application of the principles noted in our letter to the specific projects under the MOU should, in our view, result in the following prioritization (and related project grouping) and over what we expect would be a multi year period.

### Highest priority

- **Financial Instruments** (highest priority) - As discussed in our separate comment letters to the Boards, we believe that many of the concepts of IFRS 9 can serve as the basis for a converged standard. While significant work remains to be accomplished with respect to impairment, including in our view field testing at a variety of entities (large and small, financial institutions and non-financial institutions), we believe that a final converged standard in 2011 is achievable. We commend the Boards for their decision to work towards a converged solution on impairment and believe the proposed solution must undergo robust field-testing.
- **Offsetting** - A source of significant diversity between US GAAP and IFRS that we believe the Boards can and are addressing expeditiously.
- **Fair Value Measurements** - The Boards have made substantial progress on this project and we see no significant impediments to completion in 2011.
- **Consolidation** (near term) - While we believe that significant convergence can be achieved in the near term for certain issues (e.g., applicability to investment companies, determining whether an entity acts as a principal or an agent, application to structured entities), achieving convergence in other areas (de facto control and potential voting securities) will prove much more challenging and should be given additional time to resolve (completion in 2012).
- **Discontinued Operations** - We believe the Boards have substantially completed their efforts to improve the accounting in this area and see no reason to delay issuance of a final and converged standard. The Discontinued Operations project should be decoupled from the financial statement presentation project, which we believe should be reconsidered on a much longer time horizon.
- **Field testing and outreach on Revenue and Leases** - We believe that the staff allocated to these projects should devote considerable time to these activities during 2011, while the Boards complete the projects listed above.

**Next priority**

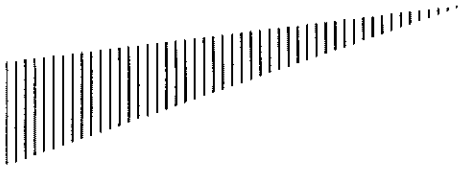
- **Revenue recognition**
- **Leases**

While these two areas are not completely converged, we believe that differences in accounting do not often result in significant differences between IFRS and US GAAP and, for the time being, user needs can be adequately addressed through clear disclosure of an entity's accounting policies. However, improvement in these standards is a worthwhile long-term goal and we support the Boards' efforts in these areas.

We commend the Boards and their staffs on the considerable outreach efforts made to date. In particular, the staff's willingness to meet with a significant number of industry groups to better understand the unique revenue recognition issues in those industries is an important first step. However we believe much more outreach is necessary.

Because of the far-reaching effects of these proposals and the significant implementation challenges that will result, we believe it is critical that the Boards move deliberately and carefully field test the proposals in a variety of industries so that preparers can apply them without undue diversity in practice and auditors can audit the results. We also believe that it is vital that the Boards conduct more outreach to determine whether financial statement users will find reported results under the proposals more useful. We also believe that it is critical for the standard to address both lessee and lessor accounting at the same time. As noted above, this work can be conducted during 2011 to reasonably allow issuance of final standards thereafter, likely in 2012.

- **Insurance Contracts** - We believe that this project is important for the IASB because of the significant diversity under IFRS. Regardless of the final timing of this project, we urge the Boards to seek a converged solution to this complex accounting problem that ultimately could be adopted in the US. However, because US GAAP currently has significant guidance on the accounting for insurance contracts, diversity in practice is limited, and users of insurers' financial statements generally seem satisfied with the current accounting regime in the US. Accordingly, need for a new insurance accounting standard in the US is, in our view, less urgent and may justify a delay in transition in the US.
- **Consolidation (longer term)** -As stated earlier, we believe that achieving convergence in areas such as de facto control and potential voting securities will prove more challenging and thus should be deferred and completed in an appropriate time period.
- **Emissions Trading** - Given the increasing use of emissions trading schemes and the lack of guidance under both IFRS and US GAAP, we believe that the Boards should seek to issue a final standard in 2012.



**Next priority, continued**

- **Disclosure framework** - While a project on the disclosure framework is not part of the MoU, we believe that a convergence project establishing a framework for disclosures and rationalizing existing disclosure requirements is critical to more effective financial reporting. We believe that a joint disclosure framework project should be in process while the Boards are completing efforts on the other major projects, given the volume of additional disclosures expected to be required (for example, the added disclosures proposed by the Boards in the revenue recognition and leases areas).

**Lesser priority**

- **Financial Instruments with Characteristics of Equity ("FICE")** - While we recognize there are significant differences between IFRS and US GAAP in a number of FICE-related areas and believe such areas need to be addressed, we also understand the significant challenges involved with this project and agree with the Boards that a lower priority is warranted. The differences that result from the disparate models relate to a relatively small group of instruments that are not fundamental to the operations of most entities, and for the time being, adequate disclosures about the accounting for those instruments, where significant, should provide users of financial statements sufficient information to make adjustments to compare the results of operations.
- **Other Comprehensive Income** - While we see no significant impediments to completion of this project, we also see minimal benefits resulting as the project ultimately represents a relatively minor improvement in transparency. While we support elimination of the option in the US to include elements of other comprehensive income in the statement of changes in stockholders' equity (which would achieve convergence), we believe other changes should not be made until the Boards reach a converged framework on the characteristics of the items that should be reported in other comprehensive income (and under what circumstances those items should be recycled into income).
- **Financial Statement Presentation** - This project does not seem to be addressing any diversity between IFRS and US GAAP, but instead seeks a dramatic change in financial reporting. While certain elements of the proposals in this area may provide helpful information to users of financial statements, we fear the Boards have significantly underestimated the efforts that may be required to implement a number of the ideas outlined in this project. We agree with the Boards' recent decision that near-term efforts would be better spent on new standards that achieve convergence and that it would be best to delay completion of this project. We believe the project should be delayed until all of the other MoU projects are completed. Moreover, the Boards' efforts on this project should focus on improvements that would provide the greatest benefit at the lowest implementation costs.