Ms. Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
301 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
United Kingdom

Re: FASB File Reference: No. 1890-100  
FASB Discussion Paper and IASB Request for Views  
On Effective Dates and Transition Methods

Dear Chairman Seidman and Sir David:

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

To achieve these goals the CCMC has been a strong supporter of a single set of global accounting standards and has backed efforts to improve standards and reduce complexity through the convergence of U.S. Generally Accepted Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”).
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The CCMC appreciates the efforts of the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") in issuing the *Discussion Paper and Request for Views on Effective Dates and Transition Methods* ("the Discussion Paper"). While the Discussion Paper is an interesting start to the dialogue in implementing the convergence projects¹, the timing for consideration of the issues is not yet ripe. The challenge of the convergence projects has been greater than anticipated, making the quality and capacity for implementation even more critical. The issues that make such a discussion inopportune at this time include, but are not limited to:

- **The convergence projects are still being developed and there is no final product;**

- **The lack of final standards make it impossible to correctly identify unintended consequences that may arise with implementation including the engineering of new systems and imposition of compliance costs;**

- **Failure to understand the operation of accounting standards with legislative and regulatory initiatives stemming from the financial crisis; and**

- **A lack of a formal transparent implementation process for new accounting standards.**

Stakeholders must understand what is to be implemented, before a transition and implementation plan can be contemplated. Accordingly, the CCMC recommends that FASB and IASB, in conjunction with the appropriate regulators, establish the following transparent procedures to identify transition and implementation issues, including effective dates:

¹ The term convergence projects in this comment letter is used to describe the proposed revisions or new standards on financial instruments, revenue recognition, leases, financial statement presentation, and financial instruments with characteristics of equity, insurance contracts and comprehensive income.
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1. Establish a 9 month period, following the finalization of the convergence projects, for FASB and IASB to work with all financial reporting stakeholders to identify transition issues and issue an implementation plan;

2. Establish an Implementation Issuer Advisory Group, made up of large cap, mid cap and small cap public companies and appropriate private company representation to advise FASB and IASB on the transition issues and implementation plan;

3. Hold a series of roundtables, in conjunction with the appropriate regulators, for all stakeholders to have a voice in identifying issues and developing an implementation plan;

4. Commit to procedural transparency through adherence to the Administrative Procedures Act and disclosure policies established by U.S. financial regulators in the wake of Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) rulemaking;

5. Consult with appropriate financial regulators; and

6. Develop a formal implementation and post-implementation process as proposed by the Advisory Committee on Improvements to Financial reporting (“CIFiR”).

The CCMC is ready to work with FASB and IASB to address the transition and implementation issues and believes that these proposals are important and necessary steps in that direction. Our reasoning for this approach is discussed in detail below.

I. Discussion

The convergence projects are an important step in moving towards a single set of accounting standards that will enable investors, businesses and other interested
stakeholders to evaluate, compare and use financial data through a common touchstone. The convergence projects have been underway for quite some time and are still going through an intense development process.\footnote{As this letter was being written it was announced that FASB was dropping a controversial proposal to impose fair value measurements on loans. While this is an important step forward, a myriad of other controversial issues exist and this development is highlighted to demonstrate the scope of work still needed to be done before the convergence projects can be completed and finalized.} As long as the convergence projects are not finalized it will be impossible for the transition issues to be known and in fact the discussion paper seems to be an effort to have a thoughtful dialogue on the unknown. Also, the convergence projects are not being developed in a vacuum and FASB and IASB should prudently take into account other developments that may have an impact upon financial reporting policy.

None of the projects that are the subject of the FASB Discussion Paper are finalized, and most of the IASB’s are not final either. Further, for projects at the exposure draft stage, FASB and IASB have received a large number of comments raising significant concerns about the respective proposals. The uncertainty about the substance of any new requirements, in turn, creates challenges for considering the individual projects and their interaction in order to respond to FASB and IASB’s requests for feedback on effective dates and transition methods. Moreover, it reinforces the need for FASB and IASB to use additional methods to obtain input on the issues.

A. Convergence

We understand that the FASB’s request for comment on the Discussion Paper asks respondents to consider the questions posed without regard to the possibility of International Financial Reporting Standards ("IFRS") being incorporated into the U.S. reporting system. We appreciate the rationale for this condition. Even so, the importance of unified standards from the FASB and IASB for the issues at hand cannot be over emphasized.

The CCMC has been a strong supporter of a single set of global accounting standards and has supported efforts to improve standards through the convergence. However, some proposals under active consideration by the FASB and IASB, as part...
of their convergence projects, greatly differ. It is the stated intention of the FASB and IASB to reconcile their respective proposals. Nonetheless, the CCMC has expressed concerns that as it stands, the current process will not lead to convergence, but rather will vastly increase the complexity of financial reporting, drive up costs for companies, and adversely impact investors.\(^3\)

Further, in the context of the Discussion Paper, to the extent that the FASB and IASB do not have unified standards, it would vastly increase the costs of adopting, endorsing, or condoning\(^4\) IFRS for U.S. reporting. A two-step process that implemented new US GAAP, followed by an implementation of different IFRS requirements would be unduly burdensome on companies and users alike. In addition, a two-step process would significantly change the dialogue on the Discussion Paper regarding effective dates and transition methods.

**B. Variability of Assessments, Impact, and Concerns**

The vast majority of companies have not yet had an opportunity to assess the impact of the FASB and IASB convergence projects — many do not have the resources to do so. Moreover, many companies do not see any need to change current accounting standards. As the CCMC has previously emphasized,\(^5\) companies are facing a tidal wave of new regulations, including new accounting and disclosure requirements, each of which will carry increased costs. There is a finite limit on the total amount of additional cost attributable to new accounting and disclosure obligations that American businesses can absorb without harming our economic

\(^3\) See August 30, 2010 letter from the U.S. Chamber of Commerce to the FASB on Proposed Accounting Standards Update, “Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivatives Instruments and Hedging Activities (Topic 815)” (File Reference No. 1810-100).

\(^4\) See speech by Paul Beswick, Deputy Chief Accountant in the Office of the Chief Accountant at the U.S. Securities and Exchange Commission (SEC), Remarks Before the 2010 AICPA National Conference on Current SEC and PCAOB Developments (December 6, 2010).

\(^5\) For example, see August 30, 2010 letter from the U.S. Chamber of Commerce to the FASB on Proposed Accounting Standards Update, “Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)” (File Reference No. 1810-100 and December 15, 2010 letter from the U.S. Chamber of Commerce to the FASB and IASB on Exposure Draft: Lease (FASB File Reference No. 1850-100 and IASB ED/2010/9).
recovery. The FASB and IASB should consider this overall burden on companies in carrying-out robust, pre-implementation cost-benefit determinations.

For those companies that have begun to assess the impact of the FASB and IASB convergence projects, CCMC understands that the extent of their assessments vary, as do the results. In other words, the impacts of the various convergence projects fall unevenly; the impacts differ greatly among projects and across companies for any particular project. Again, this reinforces that the Discussion Paper should be just one component in a robust cost-benefit analysis process. For example, such a process should likewise include field testing before changing the standards and imposing any new, different, and additional requirements.

C. Regulatory Considerations

As stated earlier, the development of the convergence projects is not occurring in a vacuum; rather they are being constructed in the wake of the most serious financial crisis in the past 75 years.

In 2010, the United States enacted the Dodd-Frank Act in an attempt to deal with the financial and regulatory issues stemming from the financial crisis. The Dodd-Frank Act requires over 500 mandatory and discretionary rule makings, studies and reports. In contrast, the Sarbanes-Oxley Act passed in 2002 required only 22 such actions. Implementation of the Dodd-Frank will take years. Other jurisdictions, including the European Union, are in varying stages of developing or implementing legislative and regulatory plans to address the financial crisis.

This unprecedented legislative and regulatory activity will require an enormous concentration of resources, time and effort on the part of businesses for years to come. Because time and resources are limited, the regulatory tsunami will make it more difficult for issuers to be able to identify issues and formulate compliance with new accounting standards.

Also, some of the issue areas covered by the convergence projects are part of the Dodd-Frank implementation and those legislative and regulatory actions can impact financial reporting.
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To take one small example of hundreds, one of the convergence projects is the development of hedge accounting. How and if businesses can use derivatives as a risk mitigation tool is an issue that is being hotly debated by Congress and multiple regulators. While the United States is still unsure as to the ultimate direction that it may take, the European Union may go another way entirely. It is important for FASB and IASB to understand these developments and have an ongoing dialogue with regulators to establish a system to reflect economic activity. If the appropriate national and international authorities have not determined how or if a set of transactions can take place, it is impossible to develop a reporting system to reflect such economic activity.

D. CIFiR Implementation Procedures

The SEC chartered CIFiR to examine the United States financial reporting system in order to make recommendations intended to increase the usefulness of financial information to investors, while reducing the complexity of the financial reporting system to investors, preparers, and auditors.

CIFiR also recommended reforms to the accounting standards setting development, governance processes, the testing of real world implications of standards before they are implemented, as well as the effectiveness of accounting standards post-implementation. However, for the convergence projects to be undertaken, it is important that the benefits outweigh the costs. This, in fact, is a standard practice for many federal administrative agencies when they are engaged in rule making. The CCMC believes that it is imperative for FASB and IASB to undertake and publish a cost-benefit analysis demonstrating the need for the convergence projects to move forward and to provide a better understanding for investors and issuers to grasp the rationale for moving forward. While this should become the established practice for

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6 For instance, the Commodities and Future Exchange is considering establishing margin and capital requirements for businesses in a matter of weeks, or months. However, the Federal Reserve, which has jurisdiction over banks, will allow the Basel process, which may take years, to develop capital and margin requirements for banks in similar transactions.

7 President Barack Obama recently issued Executive Order 13563 to establish a review of current regulations and establish rigorous procedures for the implementation of new regulations to insure that benefits outweigh costs.
all accounting projects, the economic consequences for the convergence projects demand it.

Fully functioning capital markets are the driving force for a prosperous and growing economy, conditions conducive for investors to act. By not taking into account the real-world implications of the convergence projects, FASB and IASB are in danger of developing flawed standards that may have severe adverse impacts upon the domestic and global economies. A failure to appropriately reflect activity and instead drive economic activity will harm businesses and consequently their investors.

While the CCMC recognizes that difficulties in the financial markets cannot always be avoided, a robust system to review accounting standards will allow FASB to continually monitor financial reporting systems to insure the clear conveyance of information, and not place unintended and unneeded stress upon the markets.

Furthermore, the convergence projects would serve as a good pilot project to develop a comprehensive system to test accounting standards in the development, implementation, and post-implementation stages. Such a system should act as an early warning to alert FASB, IASB, the Securities and Exchange Commission (“SEC”), investors, preparers and the business community to potential issues and give FASB, IASB and the SEC an opportunity to resolve them. This system must be structured transparently in order for a review to be thorough. An early warning system will also allow for the swift development of corrective measures to be taken before real adverse economic conditions impact the financial markets.

Accordingly, the CCMC believes that the implementation of recommendations contained in the CIFTR report should be adopted into an established procedure, specifically:

- In developing the convergence projects, FASB and IASB should enhance field work including cost-benefit analysis, field visit, and pilot testing;
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- Post adoption review of each standard, within a specified time period, should occur to identify and correct problems caused by unintended consequences. This review should also evaluate if a standard is achieving its intended purpose; and

- A mechanism should be established for periodic review of the convergence project standards to keep them current. Such a review should assess standards and recommend changes if those standards are no longer fulfilling their purpose.

This robust system of testing and review will require a great deal of effort and diligence on the part of standard setters. However, such an effort will allow for the identification and resolution of issues before they reach a crisis stage. While the CCMC feels that such a system would work well for all standard development, complex standards such as financial instruments, leases and insurance contracts represent the correct application of such a system and provide an ideal opportunity to implement the CIFiR recommendations.

E. Additional Comments

For the projects that the FASB has issued exposure drafts – such as financial instruments and derivatives, revenue recognition, and leases – based on the exposure drafts, companies that have begun to assess the impacts of the proposed requirements expect to spend considerable time and effort on education and training, in addition to incurring costs for redesigning business processes and information technology. Costs for the latter are expected to be particularly significant in order to implement the revenue recognition and lease proposals.

In addition, the proposed changes are expected to affect company operations. For example, lease accounting changes are expected to alter lease or buy decisions, companies’ customer bases, performance evaluations and compensation plans, lease terms and conditions, non-GAAP financial measurement systems and disclosures, and debt covenants. Revenue recognition changes are likewise expected to have operating effects including on the types and structure of sales contracts and contract negotiations.
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There does not appear to be consensus on the transition methods that are being proposed for particular projects, including those for financial instruments and derivatives, revenue recognition, and leases. However, CCMC finds a common theme appears to be that the prospective approach is preferred from an operational standpoint, as retrospective application can require substantial costs (even, for example, the simplified retrospective approach as proposed for leases).

From an overall implementation perspective, consensus also appears lacking on the sequential versus a single-date approach. On the one hand, a one-time effort under the single-date approach can be less disruptive overall, but it would require significant lead-time (in years). On the other hand, many companies do not have the resources for a one-time undertaking, while still needing significant lead time for planning and implementing sequential changes. However, from the standpoint of sequencing the implementation of standards, leases should be last.

As to other implementation issues, companies should have the option to adopt some or all of the new standards before a mandated effective date; privately-held companies should be permitted delayed effective dates; and that the FASB and IASB should require the same effective dates and transition methods for their comparable standards.

II. Proposal For Transition and Implementation Plan

The convergence projects are important, and their proper implementation is even more critical in establishing financial reporting policies for the next generation. As with any standard development, the potential adverse unintended consequences can outweigh any initially perceived benefits. Implementation can also be costly, while it will be important for stakeholders to holistically comprehend how these standards will work together, as well in conjunction with the overhaul of financial regulatory systems.

Accordingly, the CCMC proposes the following Implementation plan as a complement to the convergence projects and to create a permanent system for the smooth implementation of accounting standards are:
1. Establish a 9 month period, following the finalization of the convergence projects, for FASB and IASB to work with all financial reporting stakeholders to identify transition issues and issue an implementation plan;

2. Establish an Implementation Issuer Advisory Group, made up of large cap, mid cap and small cap public companies and appropriate private company representation to advise FASB and IASB on the transition issues and implementation plan;

3. Hold a series of roundtables, in conjunction with the appropriate regulators, for all stakeholders to have a voice in identifying issues and developing an implementation plan;

4. Commit to procedural transparency through adherence to the Administrative Procedures Act and disclosure policies established by U.S. financial regulators in the wake of Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") rulemaking;

5. Consult with appropriate financial regulators; and

6. Develop a formal implementation and post-implementation process as proposed by CIfiR.

III. Conclusions

In conclusion, we appreciate the opportunity to comment on the Discussion Paper. However, we would also like to reinforce an overarching point, namely that is important the accounting convergence projects be done right and not be driven by a desire to meet arbitrary deadlines.

The CCMC believes that the 6 point Transition and Implementation Plan, outlined in this letter, will allow FASB and IASB to transparently and comprehensively identify and address the issues presented by the execution of the
convergence projects. While the CCMC recognizes that the Transition and Implementation Plan will create additional work for FASB and IASB, its adoption will reduce complexity and the attendant unintended consequences, thereby enhancing financial reporting.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman