17 February 2011

Via Email: Kevin Brower
kwbrower@fasb.org

Li Li Lian
llian@ifrs.org

Re: FASB - Discussion Paper on Effective Dates and Transition Methods
IASB - Request for Views on Effective Dates and Transition Methods

Dear FASB/IASB Board Members,

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on the FASB's Discussion Paper on Effective Dates and Transition Methods and the IASB's Request for Views on Effective Dates and Transition Methods. As users of financial statements, we are interested in ensuring that new accounting standards are implemented in an appropriate manner; this is particularly important in the current environment where a relatively large number of new standards are being developed that will have a widespread influence on financial reporting.

This letter summarizes the main areas of discussion amongst CRUF participants:

1. Should the standards be effective on the same date or phased-in over time?
2. Timing of effective dates and initial application method
3. Transition disclosures
4. Early adoption

Given the unprecedented level of standard-setting activity in the works, we also comment on the Boards' over-riding objective: **a focus on developing high-quality standards that are converged between IFRS and US GAAP**.

1. Should the standards be effective on the same date or phased-in over time?

There was no broad consensus amongst CRUF participants concerning whether the standards being developed should all become effective on the same date, or whether some form of phase-in approach should be followed.

Some participants support a "big bang" approach, where all of the new standards would become effective on the same date. In essence, this method would compress the state of flux during the transition and would allow analysts to digest all of the changes in one (albeit large) bite. This could entail a significant workload in updating analytical models and trend analyses, however proponents of this method would prefer to do this rather than keep track of a series of incremental re-statements of financial data over an extended period of time.

Other CRUF participants support a phase-in approach, whereby selected standard(s) would be introduced first, followed by other standards at later dates, with all standards in progress becoming effective within an approximate three-year transition period. Proponents of this approach, mindful of the large number of significant standards being developed, would like to digest them on a piecemeal basis; they would consider it easier to understand and track the impact of each change in this manner. They also consider it to be a more pragmatic adoption strategy where - should certain standards not deliver the expected improvements to financial reporting - the necessary corrective changes could be made in a more stable environment, in the absence of a large number of other financial reporting changes being introduced at the same time. Also, a phase-in strategy would permit a relatively quick adoption of standards for projects that are nearing completion, which could be important if remaining projects become bogged down with indefinite delays.

Most participants who support a phase-in approach advocate a grouping approach, whereby related standards, such as leasing and revenue recognition projects, would be grouped together and implemented at the same time.

In the event that the Boards encounter significant delays in the resolution of some of the projects, those who support a "big bang" approach generally would advocate, under such circumstances, moving towards a phase-in approach. This would ensure that at least those standards that are ready to be implemented would become effective in a relatively timely manner.

It is important that the two Boards co-ordinate their implementation approaches for joint projects. Divergent approaches will unnecessarily undermine comparability among global companies.

We consider other factors pertaining to these alternative approaches below.

2. Timing of effective dates and initial application method

Effective dates and the application method used to apply the new standards are closely linked. This is because: (1) retrospective application of new accounting standards is highly desirable from a user-perspective, since we frequently use trend data to analyze performance and value financial reporting comparability; however (2) it may be impracticable for some companies to retroactively change accounting, particularly when those changes require judgment based on the facts and circumstances that existed in prior periods.

Thus, we would support a reasonable delay in the effective date of a new standard if such a delay would offer preparers the time to develop the data-set needed for a fully retrospective application. Many of the existing standards scheduled to be replaced are not in urgent need of replacement, since they are functioning reasonably well at the moment, or have known flaws that we are used to dealing with.

We think that a reasonable timeframe for an implementation transition would be approximately three years. We see several additional benefits that would be derived from this approach:

- A reasonable implementation lead-time would permit companies to run parallel systems in real-time for two or three years, thereby avoiding the problem of hindsight and bias with after-the-event restatement.
- Companies would be in a position to provide more effective and timely disclosure of the anticipated impact of each new standard (refer to the next section for further discussion of why we think this is important).
- Implementation issues and unforeseen or unintended consequences of the new standards could potentially be identified and corrected prior to the reporting actually changing.
- Companies in countries that have recently transitioned to IFRS would not have to undergo two major changes in their financial reporting in relatively quick succession.

3. Transition disclosures

CRUF participants are united in their view that users should be provided with timely disclosures that allow them to understand the anticipated and actual impact of each new standard.

The respective requirements of IAS 8 and ASC 250 are crucial starting points. However these disclosures of the impact of changes in accounting policies are provided at the time of the change and do not provide users with guidance on the anticipated impact of such changes in advance of their implementation. Such advance guidance would be very helpful to us, since it would allow us to build up a timely knowledge and understanding of the changes that we should expect, and would enable us to better prepare for the changes.

We believe that the SEC's Staff Accounting Bulletin Topic 11M, *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant when Adopted in a Future Period* provides a reasonable framework for the type of advance disclosures that would be of interest to us. The SEC requires:

- A brief description of the new standard, the date that adoption is required and the date that the registrant plans to adopt, if earlier.
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined.
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless not known or reasonably estimable. In that case, a statement to that effect may be made.
- Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the standard (such as technical violations of debt covenant agreements, planned or intended changes in business practices, etc.) is encouraged.

We would encourage the FASB and IASB to consider introducing these as specific requirements under their respective standards; to be disclosed for each separate new standard. We note, though, that companies often provide little quantitative information with respect to this SEC requirement, besides saying that the impact will either be material or not material. Our expectation would be that companies should be able to provide increasingly insightful disclosures about the expected impact of each new standard the closer they get to implementing it. For example, assuming a three-year period between the issuance of a standard and its effective date, we would generally expect companies to be able to disclose, in each respective year prior to the effective date:

- Three years prior: a narrative description of the likely impact.
- Two years prior: a more granular narrative description, accompanied by a broad quantification of the likely impact. (E.g. the expected directional change on key balance sheet, income statement and cash flow statement line items; and factors that might change this assessment prior to actual implementation).
- One year prior: further narrative analysis, accompanied by a detailed quantification of the likely impact (e.g. the expected impact on each respective balance sheet, income statement and cash flow statement line item; and factors that might change this assessment prior to actual implementation), together with a quantification of the actual impact on the current and prior period, for those companies that have sufficiently progressed in their implementation schedule. .

We would urge the Boards to include principles that specifically incorporate these matters in future standards.

4. Early adoption

In general, CRUF participants do not favor offering companies the opportunity to early-adopt new standards because doing so would undermine comparability amongst peers. However, in light of the goal of ongoing convergence between IFRS and US GAAP, most participants agree that this would be a valid option in those limited cases where an entity might wish to early-adopt a standard to bring its reporting into line with that already used by its core competitors in other countries. We would strongly recommend, however, that full retrospective application and disclosure be required in such cases. In addition, an early adoption election would be appropriate for companies in countries that are in the process of transitioning to IFRS.

Focus on developing high-quality standards that are converged between IFRS and US GAAP

It is clear that accounting standard-setting has reached a critical juncture. The satisfactory completion of the existing joint projects would represent a major achievement towards the goal of higher quality, globally converged standards. If this hurdle is successfully negotiated, we see no reason why other areas of diverged standards could not also be improved and converged in the future. If not, however, we are concerned that the entire convergence process could be at risk.

We commend the Boards for their convergence strategy as users benefit from a single body of high-quality global standards. However, much work remains to be done in completing the joint projects, and we perceive that the June 2011 timetable the Boards have committed to is a very aggressive target. We welcome recent comments from Chairman Seidman and others that these targets are not set in stone. We urge the Boards to take the time necessary to carefully deliberate each project, including seeking more input from constituents and field testing where appropriate, including field testing with users of financial statements.

Most CRUF participants agree that the over-riding objective of both Boards should be to focus on developing high-quality standards that are converged between IFRS and US GAAP. If priorities need to be re-established to meet this goal, or extra time is needed, so be it. We would urge the Boards to carefully consider their respective workloads and, if necessary, shift focus to ensure that the most critical projects are completed first, to the highest standard possible.

Short-term priority: financial instruments

A majority of CRUF participants view financial instruments as the single most important project in progress, both in terms of improving the quality of existing standards and moving closer towards achieving convergence between IFRS and US GAAP. Accordingly, we would suggest that the Boards should place the highest priority and resources to the satisfactory completion of this project; even if this means that other projects need to be delayed in order to get this done.

CRUF participants would be pleased to meet with the Boards to discuss the contents of this letter.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Peter Elwin

Terri Campbell, CFA

Zhen Deng, PhD

Elmer Huh, CFA, FRM
Director
Portfolio Valuation and Corporate Finance
Duff & Phelps, LLC

Gregory Jonas
Managing Director
Morgan Stanley

John Kattar, CFA,
President and Chief Investment Officer
Eastern Investment Advisors

Goro Kumagai
Senior Fellow
Strategic Research Department
Mizuho Securities Japan.
Visiting Professor
Graduate School of Management
Kyoto University

Scott A. Nammacher

Pinto Suri

Jed Wrigley
Portfolio Manager
Director – Accounting and Valuations
Fidelity Investments