

March 25, 2011

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**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 Financial Instruments Reporting and Convergence Alliance (“FIRCA”) is a coalition of several trade organizations – American Council of Life Insurers, CRE Finance Council, Group of North American Insurance Enterprises, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable, and The U.S. Chamber of Commerce – representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally. FIRCA welcomes the opportunity to comment on the *Requests for Views on Effective Dates and Transition Methods*.

The convergence projects of the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) are a critical step in the advancement 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 language. FIRCA has supported the efforts to improve accounting standards through convergence of U.S. Generally Accepted

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 2

Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”). FIRCA has filed comment letters with the FASB and the IASB with suggestions to improve proposals and reduce complexity in the joint convergence projects.¹

When finalized, the convergence projects will be transforming, as significant changes will be occurring in the major areas of financial reporting. The new standards will need to be considered both individually and collectively. Companies and investors alike will need time to understand and absorb the implications of these changes. For companies, implementation efforts include training, changing existing systems and installing new ones, and helping to educate their investors. However, since the convergence projects are not yet finished and many difficult issues remain to be resolved, the universe of potential transition and implementation issues is unknown and so, for example, transition preparation by companies cannot yet begin.

Because transition and implementation issues are critical for the future of effective financial reporting policy, completion of the convergence projects is a milestone, but not the end of the standard-setting process. It is important to recognize that, even after promulgation, revisions in the standards may still be required in response to new information and insights that come to light during the implementation process.

Accordingly, FASB and IASB need to allow time for receiving and responding to feedback *prior* to the effective date(s) of the standards and provide a process for doing so. As such, FIRCA believes that it is important for the FASB and IASB to add an “implementation phase” to their convergence projects. As discussed more fully below, FIRCA proposes that FASB and IASB, in conjunction with the appropriate regulators, establish transparent procedures to identify transition and implementation issues. In addition, the implementation phase should include activities such as appointing an implementation advisory group and holding a series of roundtables, which could be linked activities for efficiency and effectiveness.

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.

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 3

I. Discussion

Moving forward to completion of the convergence projects provides a golden opportunity for accounting standard-setters to implement some of the recommendations of a recent Securities and Exchange Commission (“SEC”) federal advisory committee.² The SEC chartered the Advisory Committee on Improvements to Financial Reporting (“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 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. These recommendations speak to ensuring that the benefits of proposed standards outweigh the costs. This, in fact, is a standard practice for many federal administrative agencies when they are engaged in rule making.³

In this regard, FIRCA 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 doing so. While this should become the established practice for all accounting projects, the economic consequences for the convergence projects demand it.

While FIRCA 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.

² See the Final Report of CIFiR (August 1, 2008) available on the SEC’s website.

³ 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.

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 4

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 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, FIRCA believes that the implementation of recommendations contained in the CIFiR 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;
- 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.⁴

The establishment of a formal 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, thereby reducing the ultimate workload on FASB and IASB. Indeed, in the

⁴ FIRCA appreciates that the Financial Accounting Foundation (“FAF”) is establishing a post-implementation review process, as announced on November 18, 2010, along the lines of this recommendation.

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 5

case of the convergence projects, an implementation phase would allow for resolution of issues *prior* to the effective date(s) of the standards.

II. Proposal For Transition and Implementation Plan

To summarize, 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 will be costly for companies and investors alike, and it will be important for all stakeholders to holistically comprehend how these standards will work together. Further, these changes in financial reporting will need to be considered in conjunction with the overhaul of financial regulatory systems. The implementation process may result in feedback to FASB and IASB that requires revisions to the standards.

Accordingly, FIRCA agrees with a proposal by the U.S. Chamber of Commerce Center for Capital Markets Competitiveness submitted to FASB and IASB to create a permanent system for the smooth implementation of accounting standards as follows:

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

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 6

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 CIFIIR.

III. Convergence

Finally, it is important to recognize that to the extent that the FASB and IASB do not have unified standards, it would vastly increase the costs of allowing 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 all participants in financial reporting, including preparers, users, and regulators. In addition, a two-step process would significantly change the dialogue regarding effective dates and transition methods with respect to the convergence projects themselves. Thus, it is essential that the FASB and IASB work together and take as much time as necessary to reach agreement on standards related to these projects that are substantially converged.

IV. Conclusions

In conclusion, FIRCA appreciates the opportunity to comment on the Discussion Paper. However, we would also like to reinforce an overarching point, namely that it is important the accounting convergence projects be done right and not be driven by a desire to meet arbitrary deadlines. The interests of all stakeholders are best served by the promulgation of accounting standards that will serve the test of time.

FIRCA believes that the six point Transition and Implementation Plan will allow FASB and IASB to transparently and comprehensively identify and address the issues presented by the execution of the convergence projects. FIRCA believes that the adoption of this six point plan will reduce complexity and enhance financial reporting.

Ms. Leslie Seidman
Sir David Tweedie
March 25, 2011
Page 7

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

Sincerely,

American Council of Life Insurers
CRE Finance Council
Group of North American Insurance Enterprises
Mortgage Banker Association
Property Casualty Insurance Association of America
The Financial Services Roundtable
The Real Estate Roundtable
U.S. Chamber of Commerce