

Mr. Gerd Häusler

*Chair of the IIF Three Way Dialogue
Member of the Board of Directors and Senior Advisor
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September 3, 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, United Kingdom

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06865-5116, U.S.A

Re: Convergence approach to crisis-related accounting issues

Dear Sir David and Mr. Herz:

In my capacity as Chairman of the Three Way Dialogue and on behalf of the IIF I take the liberty of writing to you given rapidly rising concerns about a matter of basic importance.

In March 2009 the IASB and FASB publicly announced their mutual agreement to “*work jointly and expeditiously towards common standards that deal with off balance sheet activity and the accounting for financial instruments*”. Of course, this agreement is consistent with the recommendations of the G-20 to make significant progress towards a single set of high quality global accounting standards. Now, we are concerned that this commendable and indeed essential agreement may be compromised by what appear to be increasing divergences of procedure despite the fundamental commitment to convergence.

While this concern is partly based on press reports and unofficial information, it appears that, in practice, the differing approaches taken by the boards to off-balance-sheet and financial-instruments accounting issues have been set largely independently of each other. It seems clear that the agendas and timeframes - as well as the substance of proposed changes - have not been jointly developed. This may be the result of different pressures on the boards; however it is altogether very concerning, particularly in regard to the sustainability of the joint approach to convergence.

The global nature of the financial crisis has served to highlight the need for a truly universal set of regulatory standards, including standards on accounting and financial reporting. Pressures from local jurisdictions may be based on legitimate concerns given experience with the crisis, but the boards will best serve the cause of independent standard setting if they react jointly and on a common timetable to the need for improvement of the standards and work toward global solutions, albeit on an expedited basis. The pressures arising from crisis experience should not be allowed to hinder progress towards internationally accepted solutions by inducing independent actions that are not coordinated to the fullest extent or as efficiently as possible, or cause multiple, sequential changes.

In the context of the financial-instruments project, given that the two boards have different timeframes for final ruling, and appear to be taking significantly different directions on points of substance, the prospects for convergence are at best made more complicated and may be called into question altogether. While the IASB intends to issue a final standard on phase one of IAS 39 revisions (i.e. the classification and measurement phase), the FASB's stated goal is to issue only an exposure draft at that time. Divergence in the proposals could potentially require further discussions and possibly subsequent changes to the amended IASB standard, even assuming substantive convergence can be obtained on what by then may be substantively rather different approaches.

In respect of off-balance-sheet activities, the lack of common procedure already has created an awkward situation. While the FASB has already issued SFAS 166 *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* (ASC 860) the IIF believes that it would be prudent for the FASB to participate in the IASB's re-deliberations of ED 2009/3 *Derecognition*, with the goal of attaining a fully converged standard. We have also expressed this view in our comment letter to that exposure draft:

“it would be most prudent for the Board to delay issuing a final derecognition standard and call for the FASB to join in the re-deliberation of this vital issue on the basis of comment letters received in response to the ED. In order to give proper due process in the US and particularly if an approach is adopted based on the alternative approach, it would be most appropriate for both Boards to jointly re-expose a joint ED before finalizing a wholly-revised standard. The two Boards would then be able to issue a joint, fully converged, final standard on derecognition”.

On these complex topics, the boards should implement a due-process framework that maintains consistent exposure and implementation timelines to allow constituents to comment on the same proposed changes to accounting standards. If it is necessary to set forth multiple alternatives, as may be the case when board members do not fully agree on a single approach, these should be exposed for public comment as part of a single exposure draft. The goal should be a fully converged process allowing coherent comment on one, consistent package, with the aim of adoption by issuers of the same revised standards at the same time in a uniform manner.

For high-priority, crisis-related topics such as reflecting own credit under the fair-value option, the boards should proceed without delay in collaborative deliberation and resolution of the issue.

The Institute acknowledges that historically it may have not been uncommon for the boards to deliberate separately on specific accounting issues and subsequently to reconcile any differences as part of the issuance of a final standard. However, one must question the efficiency of such an approach, particularly as it relates to high-priority topics where rapid responses are warranted. The traditional approach taken by the boards is more suitable for projects under the Memorandum of Understanding (MoU), which have a more prolonged convergence horizon.

We are concerned about the viability of the current approach and the potential adverse effects on market constituents: preparers of financial statements are thereby made subject to a rapid pace of change in accounting standards that is exacerbated by “second-round effects” from re-deliberations of alternative proposals. This is particularly concerning in countries where IFRS is being adopted for the first time. Sequential changes could cause users of financial statements to find it difficult to understand the basis of financial reporting, and comparability with prior periods could also be jeopardized. Overall, these will not serve to increase confidence in quality financial reporting.

The financial crisis appears to be subsiding and while the need for reconsideration of key accounting issues remains a top priority, full assessment of proposed alternatives and subsequent implementation over the next cycle should allow the boards to increase coordination and develop fully-converged standards that are sustainable over the long term.

Given the primordial importance of convergence – as asserted by the G20 – we would be happy to discuss these matters directly. If you would like to arrange a discussion, or should you have any questions about this letter, please contact David Schraa (dschraa@iif.com; + 1 202 857 3312) or Eran Meishar (emeishar@iif.com; + 1 202 857 3633).

Very truly yours,

A handwritten signature in black ink, appearing to read "J. Künler". The signature is written in a cursive style with a large initial "J" and a distinct "K".